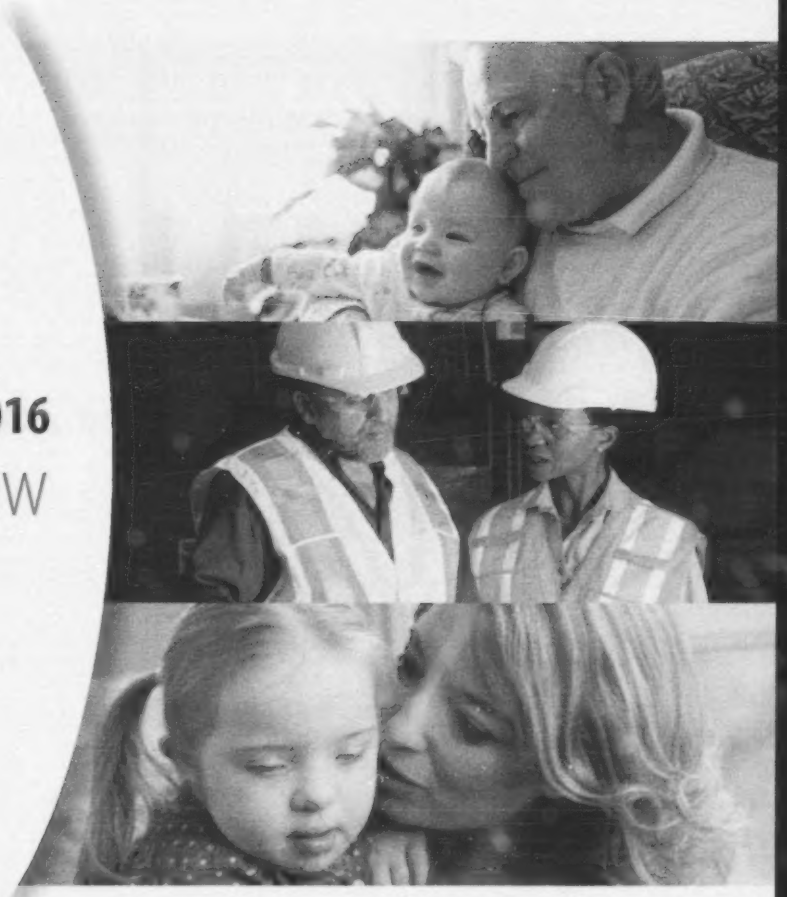
Newfoundland and Labrador **2016**

The Economic Review



Newfoundland
Labrador

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Global Economic Environment

The Palace of Westminster with Elizabeth Tower and Westminster Bridge. Courtesy: en.wikipedia.org

According to the International Monetary Fund (IMF), world GDP growth was 3.2% in 2015, moderately lower than the 3.4% observed in 2014. Global growth has been decelerating since the most recent peak of 4.2% in 2011. The slowing growth is, to a certain extent, attributed to the deceleration in emerging market economies (EMEs), notably China. In the near-term, additional uncertainty looms over Europe with the decision of the United Kingdom to leave the European Union.

For the past several years, growth in EMEs, particularly China, was the main driver of global growth. During the first decade of the new millennium, China, currently the world's largest economy, recorded annual average real GDP growth of 10.5%. In contrast, China's economic growth has decelerated over the past five years, falling to 6.9% in 2015. This slower growth is negatively impacting demand for commodities. On the other hand, the decline in oil prices is boosting consumption, especially in major oil importing countries.

The slowing of economic growth in the EMEs, combined with oversupply, has placed downward pressure on several commodity prices, such as oil and iron ore. These prices have improved since the beginning of 2016, but remain low compared to recent peak levels. For example, the price of crude oil (Brent) in September 2016 was approximately 60% lower than the level recorded in June 2014. This has negatively affected most commodity exporters, including Russia and Brazil, which are currently in recession. Although Canada is considered a commodity exporter, it has remained relatively resilient to the downturn, but not uniformly across provinces.

Monetary policies across nations are now diverging. The Federal Reserve Board in the United States increased its target interest rate (the Federal Funds Rate) by 0.25 percentage points in December 2015 to reduce its monetary stimulus. On the other hand, the European Central Bank and Bank of Japan remain in full-scale stimulus mode. The Bank of England decreased its bank rate in August 2016 while the Bank of Canada retained the status quo.

The IMF projects a 2016 growth rate in real GDP of 3.1% for the world, 1.6% for advanced economies and 4.2% for EMEs. Global growth of 3.4% is currently expected in 2017, which, if realized, could mark the beginning of a period of accelerating growth.

Real GDP Growth (%)

	2014	2015e	2016f	2017f
World	3.4	3.2	3.1	3.4
Brazil	0.1	-3.8	-3.3	0.5
India	7.2	7.6	7.6	7.6
Russia	0.7	-3.7	-0.8	1.1
China	7.3	6.9	6.6	6.2
Canada	2.5	1.1	1.2	1.9
United States	2.4	2.6	1.5	2.3
Japan	0.0	0.5	0.5	0.6
Australia	2.7	2.4	2.9	2.7
European Union	1.6	2.3	1.9	1.7
United Kingdom	3.1	2.2	1.8	1.1
Euro Area	1.1	2.0	1.7	1.5
Ireland	8.5	26.3	4.9	3.2
Germany	1.6	1.5	1.7	1.4
France	0.6	1.3	1.3	1.3
Italy	-0.3	0.8	0.8	0.9
Spain	1.4	3.2	3.1	2.2
Portugal	0.9	1.5	1.0	1.1
Greece	0.7	-0.2	0.1	2.8

e: estimate; f: forecast

Source: Canada - average forecast of major Canadian banks; U.S. - Survey of Professional Forecasters and U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions - International Monetary Fund

United States

U.S. economic growth has been steady but moderate in recent years. Real GDP increased by 1.4% in the first half of 2016 over the same period of 2015. This followed 2.6% growth in 2015.

Consumer spending accounts for about two-thirds of U.S. economic activity. Given limited growth in investment (stemming partially from low prices for oil and other commodities) and lower exports (constrained by subdued growth in the world economy and appreciation of the U.S. dollar), consumer spending will continue to be the main driver of growth in the near-term. In the first two quarters of 2016, growth in real consumer spending, at 2.5%, outpaced total real GDP growth. Consumption of durable goods increased by 4.5% during this period.

Non-residential private investment increased by 1.0% in the second quarter of 2016 (annualized, over the previous quarter). This follows two quarters of decline. Investment has been impacted by a slowdown in the energy sector, due to the falling price of crude oil. Non-residential investment remains below pre-recession levels. Generally speaking, investment follows the industrial capacity utilization rate, which has yet to recover from its decline in 2015.

Residential investment fared better. Between January and August 2016, housing starts increased by 6.1% over the same period a year ago; however, the number of starts remains lower than the pre-recession average. From 2000 to 2007, annual average housing starts were 1.7 million compared to 1.1 million in 2015.

The exports sector remained challenged due to the rising value of the U.S. dollar. The trade-weighted U.S. dollar index increased substantially since the beginning of 2015, due in part to diverging monetary policies between the U.S. and several of its trading partners. Growth in real exports of goods increased by 1.8% in the second quarter of 2016, following three consecutive quarters of decline.

Labour market conditions in the U.S. continued to improve in 2016. The unemployment rate decreased so far this year, reaching 4.8% in September, one of the lowest rates since 2008. Employment increased by 1.7%, while the participation rate remained relatively unchanged. In addition to job gains, average hourly earnings in the private sector (a key catalyst for consumption growth) increased by 2.4% during the first three quarters of 2016.

The decreasing unemployment rate and concerns about future inflation (driven by accelerating wage gains) initially led to expectations that the Federal Reserve would raise the Federal Funds Rate by the end of 2016. One increase occurred in December 2015, when the target rate was hiked by 25 basis points, bringing it between 0.25% and 0.50%, and marking the first increase since December 2008. Thus far in 2016, the target rate has been maintained at between 0.25% and 0.50%. It is expected that the target rate will be increased gradually in the future, but the pace and timing of those increases will be dependent on economic performance.

The U.S. economy is expected to expand by 1.5% in 2016, down from a growth rate of 2.6% in 2015. Consumer spending and the housing market are expected to drive growth, buoyed by pent-up demand, job gains and increasing incomes. However, the strength of the U.S. dollar and subdued global demand will constrain exports. In addition, capital spending is expected to be restrained by low commodity prices. Real GDP growth is expected to accelerate to 2.3% in 2017.

United Kingdom

On June 23, 2016, the United Kingdom (UK) held a referendum with the question "Should the United Kingdom remain a member of the European Union or leave the European Union?". Contrary to expectations, "Leave" won over "Remain", with 51.9% of the vote. In the aftermath of the referendum, Prime Minister David Cameron offered his resignation and the financial markets experienced another sharp episode of turmoil. Although this heightened volatility proved to be

short-lived, the underlying uncertainty remains, namely how this will affect trade between the UK and the EU, as well as other nations. A tangible consequence is the postponement of investment and hiring decisions in the area, particularly in the UK, as firms are less willing to take risks with so many unknowns. As well, the pound sterling markedly depreciated after the vote.

To assist with transition, in August 2016, the Bank of England adopted a number of supportive measures, including a cut in its Bank Rate, citing a short to medium term outlook that has deteriorated in the wake of the UK's vote to leave the EU.

Data covering the first half of the year reports strength rather than weakness. Real GDP for the second quarter of 2016 increased by 2.1% over the same quarter in 2015, with continuing support from consumption spending (up 3.0%), offsetting lackluster business investments (down 0.8%). In its October forecast, the IMF expected the UK to be the fastest growing G7 economy this year, at 1.8%, followed by 1.1% for 2017.

Eurozone

The Eurozone consists of the 19 jurisdictions within the European Union that have adopted the euro as their currency. Collectively, the Eurozone accounted for 12.0% of global GDP in 2015, with the largest economies being those of Germany, France, Italy and Spain. Overall GDP growth in the second quarter of 2016 slowed to 0.3% over the previous quarter. Low energy prices and improving labour markets continue to support disposable household income, and thus private consumption. Net exports also contributed favorably to those results.

There were considerable variations in GDP growth across countries. For the second quarter of 2016, Germany, Spain and the Netherlands improved over the previous quarter. Ireland is poised to have the highest growth rate of the area in 2016. On the other hand, France and Italy displayed zero growth in the second quarter.

Facing continuing sluggish growth and inflation oscillating around zero, the European Central Bank (ECB) launched its Quantitative Easing (QE) program in early 2015, which committed to purchase European bonds worth €60 billion per month until September 2016. The ECB later extended the plan to continue purchases to March 2017, including corporate bonds, and increased purchases to €80 billion monthly starting April 1, 2016.

In addition to its QE program, the ECB has been carrying out a negative interest rate policy since June 2014 by maintaining a negative interest rate on its overnight deposit facility. The purpose of negative interest rates and QE is to boost overall growth and increase inflation to around 2%. The ECB stated that it intends to conduct its QE policy until reaching this inflation target. Inflation has been muted in the last couple of years as falling energy prices mostly offset price gains for other products. In September, the ECB stated that it expects to keep its key interest rates at low levels for "an extended period of time".

Risks to the economic outlook for the Eurozone persist. Italian banks continue to carry a large number of non-performing loans and serious risks to the banking sector exist in that country. Although the Italian government is working on a bailout program, the country is considered to be in a climate of political instability, with a constitutional referendum to be held in December 2016. Also, the sovereign debt crisis in Greece, which has not been settled, could resurface—the country has implemented only two of the 15 reforms that were stated as conditions for last year's bailout package.

The IMF projects annual real GDP growth in the Eurozone of 1.7% and 1.5% for 2016 and 2017, respectively. The most recent ECB

Survey of Professional Forecasters predicts the unemployment rate will fall from 10.9% in 2015 to 10.1% in 2016 and 9.7% in 2017.

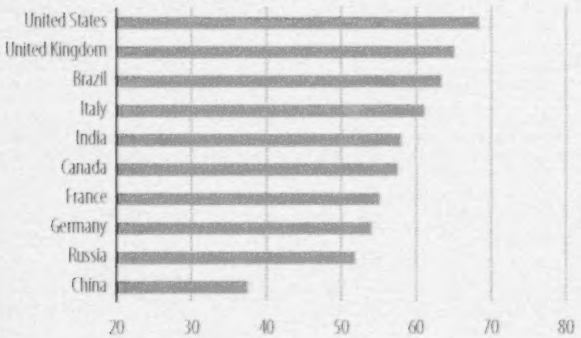
China

The Chinese economy expanded by 6.7% in the second quarter of 2016 over the second quarter of 2015, following an increase of 6.9% for 2015. Although significantly lower than the annual average rate of 10.4% recorded between 1992 and 2007, real GDP growth remains significantly above growth rates recorded in advanced economies. GDP growth was aided by a decline in imports. While a positive for China, this is a negative for countries dependent on China for exports, particularly commodity producers.

The Chinese economy is in the midst of important structural changes, with the government committed to transitioning the drivers of growth from manufacturing and investment to services and consumption. Compared to both developed and developing countries, China's consumption as a share of GDP is unusually small (see chart).

Despite the stated restructuring goals, in recent years, the government has maintained its fiscal and monetary intervention in the economy to improve short-term performance. This could potentially slow the rate of restructuring.

Household Final Consumption Expenditure
as a Percent of GDP, 2015



Note: 2014 data for China and India
Source: World Bank

The Chinese government has identified several challenges to be tackled in 2016 and beyond. In line with the aforementioned structural problems, it will seek to decrease overcapacity within less efficient and highly indebted state-owned enterprises, notably in heavy industrial sectors, such as steel, cement and mining. It will also aim at reducing the excess housing inventory as supply (in terms of new units) has exceeded the demand in the last five years.

The Chinese economy has shown signs of stabilizing so far in 2016, although this is largely attributable to strong governmental support. The IMF expects real GDP growth in China to be 6.6% in 2016 and 6.2% in 2017.

Japan

Japan is the world's fourth largest economy, accounting for 4.2% of world GDP on a purchasing power parity basis in 2015. The country has experienced a number of serious economic difficulties over the past two decades with persistently low inflation or deflation, increasingly high levels of government debt and weak private sector growth. Over the past 20 years, Japan's real GDP has increased by an annual average of only 0.7%, and inflation has averaged only 0.1% per year. In addition, due to a rapidly aging population, Japan's public finances are under sustained pressure, particularly for health and long-term care expenditures, which are difficult to constrain.

In 2013, the Government of Japan launched a three-pronged approach for economic recovery through monetary, fiscal and structural policies. These policies include a large fiscal stimulus program; measures by the Bank of Japan to increase the money supply, including the introduction of quantitative and qualitative monetary easing; and structural reforms such as reducing protectionism for selected industries and reducing labour market rigidities. Thus far, these policies have had only limited success.

Although the year started with an encouraging 2.0% annualized growth rate in real GDP for the first quarter, the pace slowed to 0.2% in the second quarter. The inflation rate has remained either slightly negative or about zero percent in 2016, well below the Bank of Japan's 2% target rate. In January 2016, the Bank of Japan applied its first negative interest rate (-0.1%) to current accounts that financial institutions hold at the Bank, and has indicated that it will keep or reduce this rate further, if necessary.

The IMF expects weakness in Japan's economy to persist in 2016 and 2017 with real GDP growth forecasted at 0.5% and 0.6%, respectively.

Canada

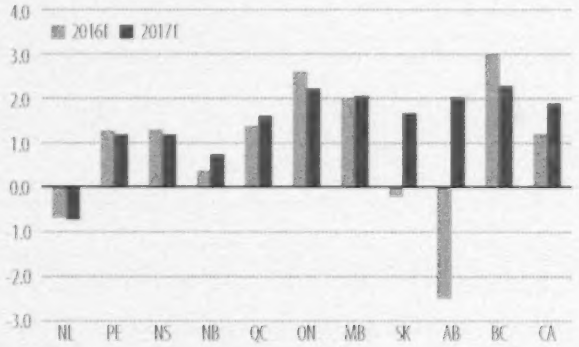
During the last decade, economic growth in provinces with a large commodity sector, notably fossil fuels, surpassed the national average. Several other provinces, particularly Ontario and Québec, were left to deal with faltering manufacturing sectors, partly due to increasing global competition and appreciation of the Canadian dollar. The recent collapse of crude oil prices, and consequent Canadian dollar depreciation, has led to a reversal of fortunes. Alberta, Newfoundland and Labrador and Saskatchewan are all expected to record negative real GDP growth in 2016 (see chart).[1] On the other hand, British Columbia, Manitoba, Ontario and Québec are expected to post growth at or above the national average. For the first half of 2016, real GDP growth for Canada is estimated at 1.0%, compared to the same period in the previous year. Economic activity declined in the second quarter due to transient factors (i.e. the interruption of several oil extraction operations in northern Alberta, due to the wildfires around Fort McMurray).

Canadian retail sales increased by 3.9% in the first seven months of 2016 over the same period in 2015. Household indebtedness has been steadily increasing since the early 1990s and reached a record high last year. Thus far, debt levels have proven to be sustainable due, in part, to a low interest rate environment. The ratio of interest payments to disposable income is currently at a historically low level. However, if interest rates rise, interest payments would increase and consumers may not have the freedom to increase expenditures, thus limiting the contribution of consumption to GDP growth. In efforts to reduce risk taking in housing markets, the Federal Government unveiled a tightening of mortgage rules in October 2016. The new rules will require new homeowners to test their ability to meet more stringent conditions such as higher interest rates (see *Real Estate*).

Capital investment in Canada is expected to be 4.4% lower than in 2015 (down 9.3% for the private sector alone), constrained by lower spending in the mining and oil and gas sectors. As well, the depreciation of the Canadian dollar in 2015 increased the cost of imported machinery and equipment thus curtailing expenditures. According to the Bank of Canada's latest Business Outlook Survey (Summer 2016), investment intentions remain subdued even for exporters unaffected by commodity prices.

The value of exports declined by 1.0% in the first half of 2016 due to price declines. Real exports

GDP Growth Rates



f: forecast
Source: Average of Canadian major banks and the Conference Board of Canada

[1] Based on an average of Canadian major banks and the Conference Board of Canada

(measured on a volume basis) increased by 1.6% during the same period. The low dollar and solid U.S. demand is expected to contribute to further gains in non-energy exports in 2016.

In response to a slowing economy, particularly in commodity dependent provinces, the Bank started cutting interest rates last year. The Bank lowered the target overnight bank rate twice in 2015—by 25 basis points on January 21 and by another 25 basis points on July 15—in an attempt to boost investment and stimulate economic growth. The target overnight rate has remained unchanged since then, at 0.5%.

In tandem with some recovery in commodity markets, the Canadian dollar appreciated moderately since the beginning of 2016, reaching about 75 cents US in October. This uptick follows a steady depreciation throughout 2015, when the Canadian dollar declined from near 85 cents US at the start of 2015 to near 72 cents at the end.

Gains in the Canadian labour market have been subdued so far in 2016. Over the first nine months of 2016, national employment grew by just 0.6% compared to the same period in 2015, with losses in all provinces except Québec, Ontario and British Columbia. The unemployment rate increased by 0.2 percentage points to 7.2%. Average weekly earnings for the first seven months of 2016 grew by 0.3% nationally, and gains were recorded in most provinces.

Economic growth in 2016 and 2017 is expected to vary across the country. Improving market conditions in the U.S. should continue to help economic performance in manufacturing intensive provinces, such as Québec and Ontario, and other provinces less dependent on oil and mineral exports, such as British Columbia and Manitoba. Reduced commodity prices will likely continue to restrain growth in the more oil and mineral resource-based provinces, such as Newfoundland and Labrador, Saskatchewan and Alberta. The latest consensus of bank forecasts and the Conference Board of Canada expects growth in Canada to average 1.2% in 2016 and 1.9% in 2017. British Columbia, Manitoba and Ontario are expected to lead the provinces in growth both this year and next.

Provincial Economic Overview

Gambo Pond. Courtesy: Rose AuCoin

Newfoundland and Labrador's real GDP is expected to increase slightly in 2016 due to an increase in exports stemming from higher oil production. However, capital investment and consumer and government spending are expected to decline, constraining employment and income growth. For the year as a whole, real final domestic demand is expected to decrease by 1.2%, while real GDP is forecast to grow by 0.6%.

On an industry basis, performance has been mixed. The oil sector is expected to record an increase in production; however, the value of oil production is expected to decline by about 5% as a result of lower crude oil prices. In the mining sector, low iron ore prices continue to present a challenge. Nonetheless, the largest company in the iron ore sector— Iron Ore Company of Canada—is reaping the benefits of its recently completed expansion project and has improved operational performance and productivity. The fishing industry has benefitted from the decline in the Canadian dollar vis-à-vis the U.S. dollar and relatively high shellfish prices. The manufacturing sector received a boost from the beginning of production from Vale's nickel processing facility while newsprint and lumber production have remained relatively stable. The construction industry continues to benefit from major project development, which supports high levels of employment and income. The tourism sector remains strong and continues to build on past growth. Notable gains were made in non-resident automobile visitation in the first nine months of 2016.

The value of provincial exports (in real terms) is expected to increase by 3.4% this year due primarily to higher oil production. Oil production is expected to be 14.2% higher as a result of higher output from Hibernia. In nominal terms, the value of exports is forecast to decline by 3.5% as lower prices for oil and minerals offset oil output gains.

Capital investment in the province remained at high levels in 2016. Investment is expected to total $10.9 billion this year, down slightly from 2015. Lower spending on the Hebron oil project, as well as lower residential expenditures, will offset higher spending on the Muskrat Falls development. Total residential spending (including renovations) is expected to be $1.4 billion this year, a decline of 7.8% compared to 2015 and consistent with lower housing starts.

Consumer spending growth has been moderate this year. The value of retail sales in the first seven months of 2016 increased by 1.5% compared to the same period of 2015. A lower value of sales at gasoline stations—mostly due to lower gas prices—constrained overall growth in retail sales. Sales from motor vehicle and parts dealers (largely comprised of vehicle sales) were the single largest contributor to the growth in retail sales so far in 2016, increasing by 8.5% in the January to July period. The number of new motor vehicles sold in the first seven months of 2016 was just over 24,000, 0.4% lower than the same period of 2015. The corresponding value of sales increased by 2.7%. There are indications that vehicle sales may weaken in the coming months. For all of 2016, retail sales are forecast to increase by 0.8%. Expenditures on services posted growth this year. For example, receipts of food services and drinking places increased by 4.2% in the first seven months of 2016 compared to the same period of 2015.

Inflation

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 2.2% in the first eight months of 2016. Inflation has edged upwards in the last couple of months as the impacts of the two percentage point increase in the Harmonized Sales Tax (effective July 1, 2016) began to be felt on some consumer goods and services (see chart). Nonetheless, lower energy prices relative to the same period of last year constrained overall growth in the CPI. Prices for fuel oil and gasoline decreased by 10.9% and 4.8%, respectively, in the first eight months of 2016 compared to the same period in

Provincial Economic Indicators

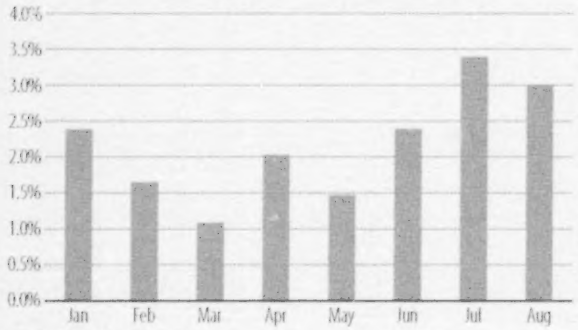
	2015e	2016f	2017f	2018f	2019f	2020f
GDP at Market Prices ($ M)	29,849	29,486	29,384	30,146	31,094	31,694
% Change	-10.9	-1.2	-0.3	2.6	3.1	1.9
% Change, real	-2.3	0.6	-4.5	-2.6	-0.6	-0.9
Final Domestic Demand* ($ M)	35,079	35,114	33,387	30,414	30,224	29,760
% Change	-1.6	0.1	-4.9	-8.9	-0.6	-1.5
% Change, real	-2.7	-1.2	-6.2	-10.4	-2.4	-3.4
Household Income ($ M)	24,840	24,970	24,321	23,753	23,869	24,179
% Change	1.4	0.5	-2.6	-2.3	0.5	1.3
% Change, real	1.0	-2.0	-4.9	-4.4	-1.5	-1.0
Household Disposable Income ($ M)	17,136	17,177	16,665	16,291	16,391	16,615
% Change	1.5	0.2	-3.0	-2.2	0.6	1.4
% Change, real	1.0	-2.2	-5.3	-4.3	-1.4	-0.9
Retail Sales ($ M)	8,900	8,968	8,837	8,580	8,476	8,526
% Change	0.2	0.8	-1.5	-2.9	-1.2	0.6
% Change, real	0.4	-1.5	-3.7	-4.3	-2.5	-0.7
Consumer Price Index (2002=100)	129.0	132.3	135.4	138.3	141.1	144.4
% Change	0.5	2.5	2.4	2.1	2.0	2.3
Capital Investment ($ M)	11,009	10,931	9,593	7,383	7,455	6,863
% Change	-7.1	-0.7	-12.2	-23.0	1.0	-7.9
% Change, real	-8.8	-1.8	-13.1	-24.1	-0.7	-9.5
Housing Starts (Units)	1,697	1,428	1,224	1,051	940	927
% Change	-19.9	-15.8	-14.3	-14.1	-10.6	-1.3
Employment (000s)	236.2	233.2	223.3	210.5	204.6	202.1
% Change	-1.0	-1.3	-4.2	-5.8	-2.8	-1.2
Labour Force (000s)	270.8	268.6	262.9	257.6	254.6	251.4
% Change	0.0	-0.8	-2.1	-2.0	-1.2	-1.3
Unemployment Rate (%)	12.8	13.2	15.1	18.3	19.6	19.6
Participation Rate (%)	61.1	60.4	59.6	59.0	58.7	58.3
Population (000s)	528.7	530.1	526.3	520.4	517.1	514.2
% Change	0.1	0.3	-0.7	-1.1	-0.6	-0.6

* Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.

e: estimate; f: forecast, Department of Finance, September 2016

Source: Statistics Canada; Department of Finance

Monthly CPI Growth/Inflation, 2016



Source: Statistics Canada

2015. For the year as a whole, inflation is expected to average 2.5%.

Labour Markets

Labour markets continued to soften in 2016. Both employment and average weekly earnings decreased so far this year, leading to a decline in total compensation of employees.

Employment declined by 1.1% in the first nine months of 2016 compared to the same period of 2015. The labour force also decreased in the first nine months of 2016, falling by 0.7% relative to the same period of 2015. The decline in the labour force stemmed from a drop in the participation rate (from an average of 61.4% in the first nine months of 2015 to 60.7% in the same period of 2016). As the decrease in employment was greater than that of the labour force, the unemployment rate increased. During the first nine months of the year, the unemployment rate averaged 13.2%, an increase of 0.4 percentage points compared to the same period of 2015.

Average weekly earnings fell by 0.8% in the first seven months of 2016 compared to the same period of 2015 but, at $1,010, were still the second highest level among provinces after Alberta. The decline in employment and wages led to a 0.4% decrease in total compensation of employees for the first six months of 2015.

Population

Despite the decline in economic activity and employment in the last couple of years, the province's population has grown. As of July 1, 2016, the province's population was estimated at 530,128, an increase of 0.3% (or 1,452 persons) from July 1, 2015. This marks the ninth consecutive year of population growth following 15 years of decline. Population growth stemmed from migration—primarily international migration (see table). Total migration added 2,286 to the province's population. This was partially offset by a natural population decline of 834 as there were more deaths than births in the province. Natural population change has been negative for several years, reflecting the aging population and a relatively low fertility rate.

Newfoundland and Labrador Total Population

Population (July 1, 2015)	**528,676**
Total net migration	**2,286**
Interprovincial net-migration	271
Interprovincial in-migration	7,187
Interprovincial out-migration	6,916
Net international migration	2,015
Natural population change	**-834**
Births	4,235
Deaths	5,069
Population (July 1, 2016)	**530,128**

Outlook

A contraction in the economy of Newfoundland and Labrador began in 2014 and is expected to continue for several years. Initially, low commodity prices dampened short-term resource investment and contributed to the closure of some mining operations. In addition, lower levels of capital investment due to the winding down of development of several major projects have been, and will continue to be, a drag on economic growth. Furthermore, government deficit reduction measures are expected to curtail expenditures in

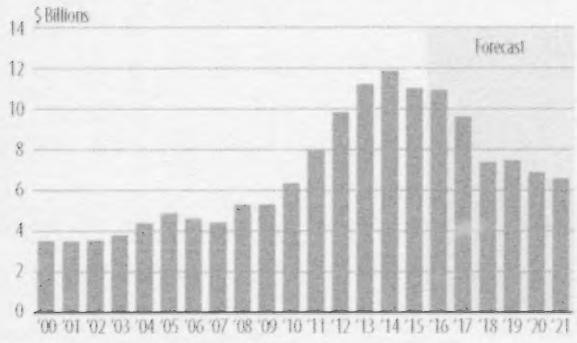
the public sector in the future. Taken together, these factors are expected to negatively impact GDP growth in the province.

In 2017, the largest impact on the economy will come from a decline in capital investment as Hebron, Vale's nickel processing facility and the Muskrat Falls project move closer to completion. Capital investment is expected to decrease by 12.2%. The completion of these projects will also result in a decline in employment and income, which is expected to dampen consumption growth. As well, low oil prices continue to dampen development activity in Western Canada and this will impact employment of some Newfoundland and Labrador residents who commute to Western Canada—also impacting consumption growth. Lower investment and consumption are expected to result in a decline in final domestic demand (real terms) of 6.2% in 2017.

Economic growth is expected to remain weak for several years beyond 2017 as further declines in capital investment are incurred and provincial government expenditures are reduced to improve its fiscal balance.

Despite the negative outlook in the short to medium term, a number of positive developments are occurring in the provincial economy.

Capital Investment



Source: Statistics Canada; Department of Finance

Construction on the underground mine at Voisey's Bay began this year—this will extend the life of the mine to 2033. Construction on both the Hebron oil project and the Long Harbour nickel processing plant are expected to be completed over the next couple of years, adding long-term productive capacity in the economy. With the beginning of oil production from Hebron, total oil production is expected to increase annually for the next several years and output from the nickel processing facility will increase manufacturing shipments. Furthermore, significant capacity enhancements in transportation infrastructure, such as those at St. John's International Airport and the Marine Atlantic ferry; the completion of the St. John's Convention Centre; and the continued addition of new capacity in the accommodations sector should facilitate growth in the tourism sector.

Furthermore, there is significant long-term potential in the provincial economy, particularly in the energy sector. There are substantial oil and gas resources in the Newfoundland and Labrador offshore area. This is evidenced by two recent resource assessments (one in the Flemish Pass and one in the West Orphan Basin). The resource assessment in the Flemish Pass indicated a resource potential of 12 billion barrels of oil and 113 trillion cubic feet of natural gas, while the one in the West Orphan Basin estimated a resource potential of 25.5 billion barrels of oil and 20.6 trillion cubic feet of gas. Furthermore, land sale results in December 2014 and November 2015 showed industry's confidence in the offshore potential. More recently, Statoil proposed a significant exploration drilling program (up to 10 wells over the course of a 10 year period beginning in 2018) in the Flemish Pass, demonstrating the company's commitment to the area. Deepwater exploration and development hold significant opportunities for future growth in oil production and, by extension, the provincial economy.

Oil and Gas

Hebron GBS at the Deepwater Site, Bull Arm. Courtesy: ExxonMobil Canada Properties

The oil and gas industry (including support activities) is the largest contributor to provincial GDP. It is estimated that the industry accounted for 25.7% of the province's nominal GDP in 2014. Oil and gas industry employment in 2015 was approximately 8,400 person years (3.6% of total provincial employment). Year-to-date (January to August) production totalled 47.6 million barrels, 4.4 million barrels (10.1%) more than the same period in 2015. For the year as a whole, oil production in the province is expected to total 71.6 million barrels, 8.9 million barrels (14.2%) more than 2015, as increased production at Hibernia is expected to offset declines at Terra Nova and White Rose (see chart). Despite this increase in total production, the value of oil production is expected to decline by 4.9% as a result of lower crude oil prices. Although prices have been trending upward since January 2016, year-to-date Brent prices (as of October 14) are approximately 23% below the comparable period of 2015 (see chart). For 2016 as a whole, Brent is expected to average US$42.32/barrel compared to US$52.32/barrel in 2015—a decline of 19.1%.

Hibernia

Through the first eight months of 2016, Hibernia production totalled 30.9 million barrels, an increase of 27.2% (or 6.6 million barrels) from the same period in 2015. Hibernia production was constrained in 2015 by development work related to the connection of several wells in the Hibernia South Extension.

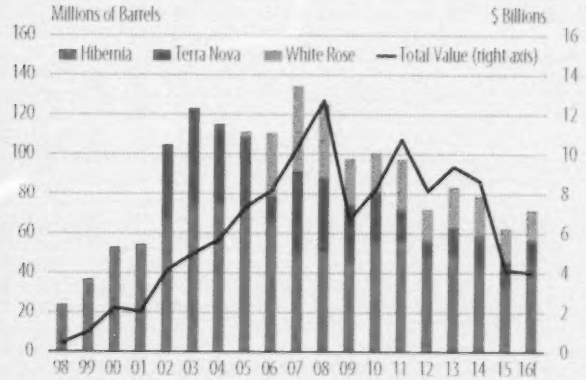
In April 2016, Hibernia Management and Development Company Ltd. (HMDC) initiated upgrades to the Hibernia platform's two drilling rigs in order to optimize performance and ensure the long term safety and integrity of the rigs. These upgrades have become necessary as increased reserves have extended the life of the project to at least 2040. The rig upgrades are expected to continue over the next several months; however, this work is not expected to impact production levels.

For 2016 as a whole, Hibernia production is expected to total 46.2 million barrels, 13.1 million barrels (40%) more than 2015. Cumulative production from Hibernia, since first oil in November 1997 to August 31, 2016, was 983 million barrels (approximately 60% of reserves) with an estimated value of $66.9 billion. As of June 30, 2016, there were a total of 2,028 people working in the province on the Hibernia project, of which, 1,735 (85.6%) were Newfoundland and Labrador residents.

Terra Nova

Terra Nova produced 6.8 million barrels of oil during the first eight months of 2016, 2.1 million barrels (23.7%) less than the same period in 2015. A planned maintenance shutdown of the *Terra Nova FPSO* started on May 18, 2016 and lasted

Offshore Oil Production



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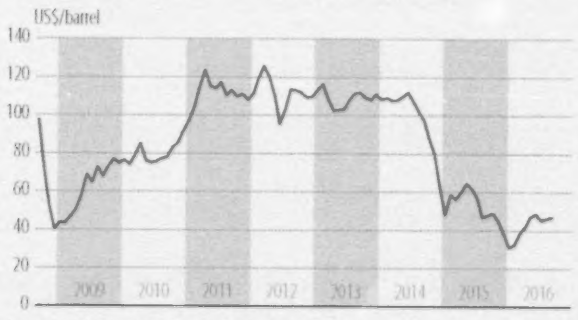
Source: C-NLOPB; Department of Finance

Brent Crude Oil Prices, Monthly



Source: U.S. Energy Information Administration

approximately five weeks. By comparison, the *Terra Nova FPSO* had roughly 7.5 weeks of maintenance downtime in the first eight months of 2015.

For 2016 as a whole, Terra Nova production is expected to total 10.3 million barrels, 2.7 million barrels (21%) less than 2015, due primarily to natural production declines. Cumulative production from Terra Nova, since first oil in January 2002 to August 31, 2016, was 386 million barrels (approximately 76% of reserves) with an estimated value of $27.1 billion.

Suncor recently signed a 15-month $119 million contract with Transocean to utilize the dual activity deepwater semisubmersible drill rig *Transocean Barents* at the Terra Nova field. The drill rig will be used for both maintenance work and infield drilling operations, which could increase recoverable reserves and extend the life of the Terra Nova field. Work is expected to begin in the third quarter of 2017.

As of June 30, 2016, there were 866 people working in the province on the Terra Nova project, of which, 758 (87.5%) were Newfoundland and Labrador residents.

White Rose (including North Amethyst)

Through the first eight months of this year, the White Rose project produced 10.0 million barrels, 1.2% less than the same period in 2015. Beginning in early July, the *SeaRose FPSO* underwent a planned 19 day shutdown to execute maintenance and repairs at the White Rose and North Amethyst fields. Production resumed on July 23. In comparison, over the first eight months of 2015, production on the *SeaRose FPSO* was shut down for 14 days (in August) for routine maintenance.

For 2016 as a whole, White Rose production is expected to total 15.1 million barrels, 1.5 million barrels (9%) less than 2015. Cumulative production from White Rose, since first oil in November 2005 to August 31, 2016, was 264 million barrels (55% of reserves) with an estimated value of $23.3 billion.

Husky remains committed to the development of West White Rose. Husky is currently considering alternative modes of development to the wellhead platform, including a sub-sea development concept. In the interim, production from the West White Rose pilot program, which began in September 2011, continues. At its June 2016 investors' conference, a company spokesperson stated that it expects West White Rose production to begin in the 2020-plus timeframe and that it views West White Rose as a bridge to its next stage of growth in the Flemish Pass Basin.

As of June 30, 2016, there were a total of 1,335 people working on the White Rose Project (including White Rose, North Amethyst and West White Rose) in the province, of which, 1,219 (91.3%) were Newfoundland and Labrador residents.

Hebron

The Hebron oil field, which is estimated to contain over 700 million barrels of recoverable oil, was discovered in 1981. The Hebron development received official sanction on December 31, 2012 becoming the province's fourth stand-alone offshore oil project. Hebron will utilize a Gravity Based Structure (GBS) similar to, but on a smaller scale than Hibernia. The Hebron GBS is designed for an oil production rate of 150,000 barrels of oil per day with a 30 year lifespan. The total capital cost for the project is estimated at more than $14 billion.

GBS construction began in the dry dock at Bull Arm in October 2012. After pouring the GBS base slab, slip forming was used to construct the GBS to a height of 27.5 metres. In June 2014, the dry dock was flooded to prepare for towing and the GBS was floated to the deep water site in July 2014 for the remaining GBS construction. The GBS currently stands at approximately 120 meters in height (see photo on page 15).

The topsides of the Hebron platform consist of the following six components: the drilling support

module; the derrick equipment set; the utilities process module; the flare boom; the helideck and life-boat stations; and the accommodations module. Four of these modules were produced in the province and the remaining two were fabricated in South Korea.

The flare boom, which was fabricated in Port aux Basques by Talon Energy, was completed in October 2015. The drilling support module was completed by Kiewit Offshore Services in Marystown in December 2015. Weighing 3,200 tonnes, this is the largest module ever constructed at the Marystown facility. The helideck and life-boat stations were fabricated by C & W Offshore in Mount Pearl and were completed in January 2016. The accommodations module, which will provide quarters for 220 people, was completed by North Eastern Constructors Limited and Apply Leirvik (NEAL) at Bull Arm in June 2016.

The derrick equipment set and the utilities process module were fabricated in South Korea by Hyundai Heavy Industries. The derrick equipment set arrived at Bull Arm in November 2015 and the utilities process module arrived in September 2016.

Construction of the Hebron GBS is 99% complete. All topsides modules are now at Bull Arm and are being integrated and installed onto the utilities process module. At present, the drilling support module, derrick equipment set, flare boom, and east life boat station have been installed. Construction continues inside the GBS including installation of piping and electrical systems. Final construction is scheduled to be completed later this year. The mating of the GBS and topsides will occur in the first quarter of 2017. Tow-out of the platform is scheduled for the summer of 2017 with first oil expected by year's end.

As of June 30, 2016, there were 4,183 people working on the Hebron project in the province, of which, 3,632 (86.8%) were Newfoundland and Labrador residents.

Exploration

Offshore

New discoveries continue to be made in the province's offshore area. In 2013, Statoil announced two new discoveries in the deepwater (approximately 1,100 metres) Flemish Pass Basin. The Harpoon discovery (whose resource potential has yet to be fully assessed) was announced in June 2013 and the Bay du Nord discovery (estimated to contain between 300 and 600 million barrels of recoverable oil) was announced in August 2013. The Harpoon and Bay du Nord discoveries are in close proximity to the 2009 Mizzen discovery, which is estimated by the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) to contain 102 million barrels of recoverable oil. Statoil holds a 65% interest in the Mizzen, Harpoon and Bay du Nord fields, and Husky Energy holds the remaining 35% interest.

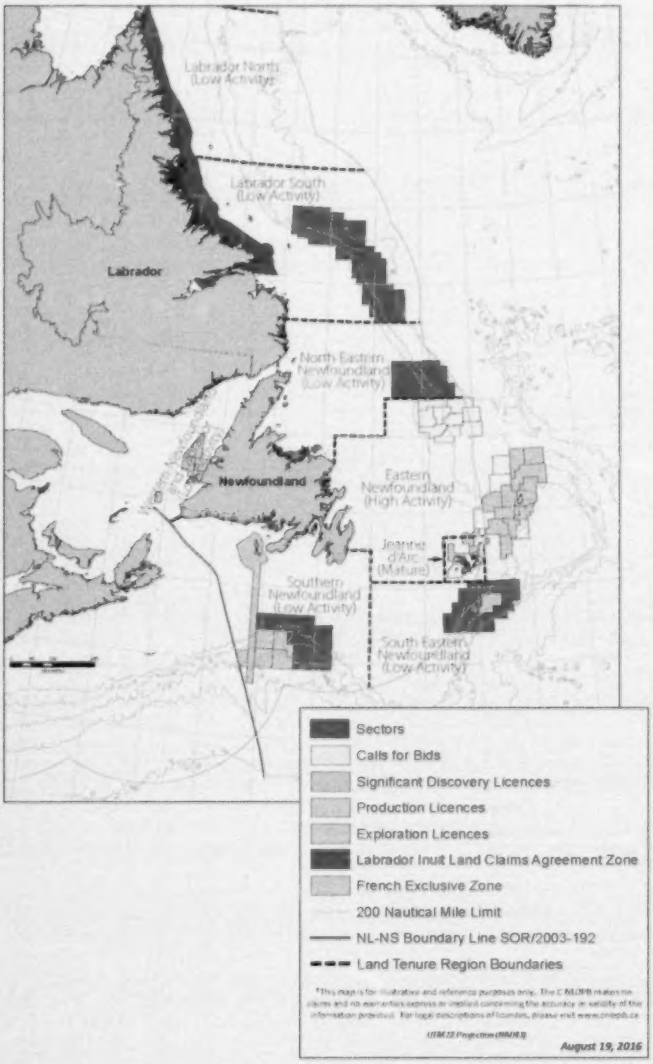
In June 2016, Statoil announced the results of a recently completed 19-month drilling program in the Flemish Pass Basin. Nine wells were drilled including three appraisal wells on the Bay du Nord discovery, four exploration wells in close vicinity of Bay du Nord and two exploration wells in other areas of the Flemish Pass. Statoil confirmed its initial 300 to 600 million barrel estimate for Bay du Nord but noted that it is potentially towards the lower end of that range. The drilling program also resulted in two additional oil discoveries (Bay de Verde and Baccalieu) with resource estimates yet to be determined. Statoil noted that the Flemish Pass is still a frontier area, where only 17 wells have been drilled in the entire 30,000 km^2 basin and that the basin remains a core exploration area for the company. Statoil indicated that the results of the drilling program have improved the company's understanding of the frontier basin and work is underway to evaluate the results to determine the potential for development at Bay du Nord.

In August 2016, Statoil provided a project description to the Canadian Environmental Assessment Agency, for a proposed exploration drilling program in the Flemish Pass. The proposed drilling program would include current and potential future licences held by Statoil and its partners in the Flemish Pass. Statoil estimates that up to 10 wells could be drilled over the course of a 10 year period beginning in 2018.

Onshore

On May 31, 2016, the province received the final report from the independent panel on hydraulic fracturing within the province. The Department

Land Tenure Regions



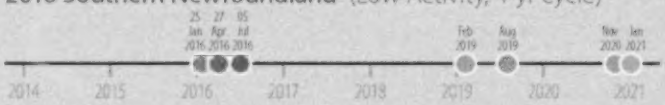
Active Land Call Rounds Timeline

- Call for Nominations (AOI) Open
- Call for Nominations (AOI) Close
- Sector Identification
- Call for Nominations (Parcels) Open for Six Weeks
- Call for Bids Open
- Call for Bids Close
- Issuance of Licenses

2016 Jeanne d'Arc (Mature, 1-yr cycle)

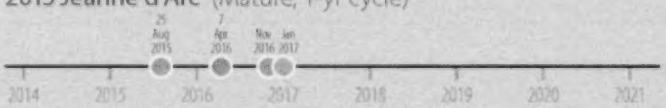
2016 Eastern Newfoundland (High Activity, 2-yr cycle)

2016 Southern Newfoundland (Low Activity, 4-yr cycle)



2016 North Eastern Newfoundland (Low Activity, 4-yr cycle)

2015 Jeanne d'Arc (Mature, 1-yr cycle)



2015 South Eastern Newfoundland (Low Activity, 4-yr cycle)

2015 Labrador South (Low Activity, 4-yr cycle)

2014 Eastern Newfoundland (High Activity, 2-yr cycle)

2013 Labrador South (Low Activity, 4-yr cycle)

of Natural Resources has assembled a team to review the information and recommendations in the report. In the meantime, the Province's current policy of not accepting applications for hydraulic fracturing will remain in place.

Black Spruce Exploration has applied for approval to drill an onshore to offshore well located in the Lark Harbour area on the west coast of the island portion of the province. The application is currently undergoing review by the Department of Natural Resources and other government agencies.

Enegi Oil Plc continues to maintain its production lease at Garden Hill South.

Offshore Oil Exploration Initiatives

In December 2013, the C-NLOPB announced a new scheduled land tenure system. The new system allows additional time for exploration companies to conduct geoscientific assessments of the hydrocarbon prospectivity in the lesser explored basins of the Newfoundland and Labrador offshore area, thereby encouraging exploration in frontier areas and fostering a more competitive environment. As well, the system follows a set schedule for companies to nominate and bid on land parcels for exploration, and improves transparency and predictability. A set land sale schedule, in combination with longer lead times to acquire and analyze data, positions the province to compete with the leading exploration jurisdictions throughout the world.

Acquiring geoscience data ahead of licensing rounds is a pillar of the new Scheduled Land Tenure System. The Department of Natural Resources and Nalcor continue to collaborate and invest in data acquisition including satellite seeps, Multi-Client 2D and 3D broadband seismic, resistivity (CSEM) data, piston core samples and other geoscience data. This data is then used as input to carry out Independent Resource Assessments of Call for Bids parcels ahead of the closing of the bidding round.

Recent geoscience programs have identified additional prospective areas in low activity regions including the Labrador South, North Eastern Newfoundland, South Eastern Newfoundland and Southern Newfoundland regions. Geoscience acquisition activity (seismic, gravity, electromagnetic resistivity and seabed sampling) was robust in 2016 despite a reduction in global exploration expenditures.

Independent Oil and Gas Resource Assessments

On August 24, 2016, the Province released the results of an independent oil and gas resource assessment conducted by Beicip-Franlab, a Paris-based petroleum consultancy firm. The assessment is based on new data covering nine parcels on offer in the West Orphan Basin within the area of the C-NLOPB's 2016 Eastern Newfoundland Region Call for Bids, which closes in November 2016. The resource assessment of these nine parcels has identified unrisked in-place resource potential of 25.5 billion barrels of oil and 20.6 trillion cubic feet of gas over the 2.0 million hectare area. This assessment area covers approximately 2% of Newfoundland and Labrador's total offshore area.

This marks the second time that the Province has commissioned and released the results of independent resource assessments over the pertinent areas prior to bid closing dates. On October 1, 2015, it was announced that the oil and gas resource potential for the area covering the 11 parcels offered in the Flemish Pass in the 2015 Call for Bids is 12 billion barrels of oil and 113 trillion cubic feet of gas. Future license rounds scheduled through 2020 will follow the same process with resource assessment results released prior to the closing of the Call for Bids. This will provide the industry with independent scientifically based data with respect to the oil and gas potential of the blocks on offer and, over time, will ensure a full evaluation of all the province's offshore basins.

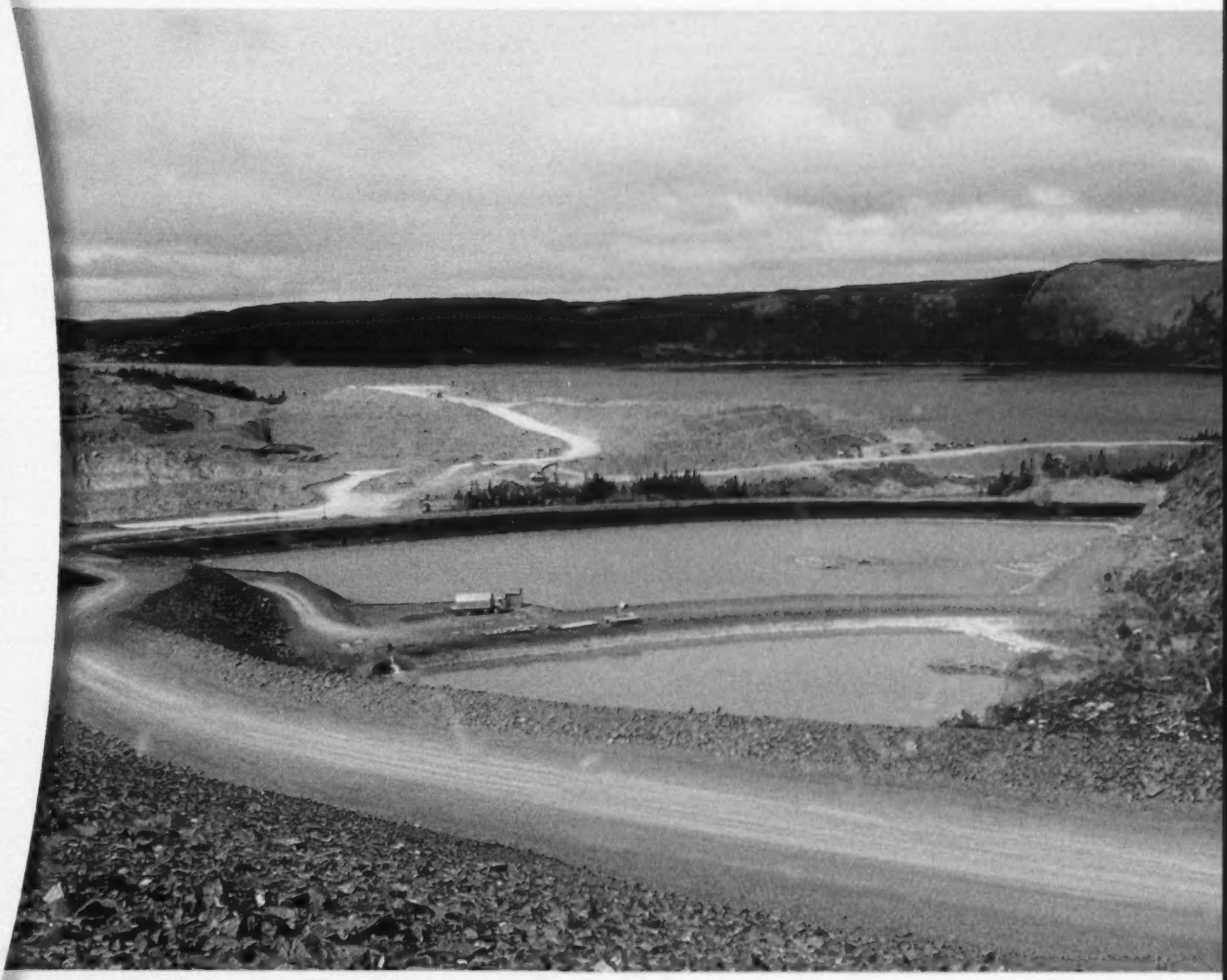
Calls for Nominations and Bids

On April 7, 2016, the C-NLOPB issued two Calls for Bids under the Scheduled Land Tenure Regime—one in the Eastern Newfoundland Region (13 parcels totaling 2,949,252 hectares) and one in Jeanne d'Arc Region (three parcels totalling 353,843 hectares). The 2016 Call for Bids in the Eastern Newfoundland Region (NL16-CFB01) consists of nine new parcels in the West Orphan Basin (1,997,523 hectares) and four parcels (951,729 hectares) in the Flemish Pass Basin, which went unawarded in the 2015 Call for Bids round. The 2016 Call for Bids will close on November 9, 2016 and the corresponding licences will be issued in January 2017.

On September 1, 2016, the C-NLOPB issued a Call for Nominations (Parcels [NL16-CFN05]) in the Jeanne d'Arc Region (one-year cycle) and a Call for Nominations (Areas of Interest [NL16-CFN04]) in the Eastern Newfoundland Region (two-year cycle). The Call for Nominations (Parcels) in the Jeanne d'Arc Region will assist the C-NLOPB in selecting parcels to be included in the subsequent Call for Bids in March 2017. The Call for Nominations (Areas of Interest) in the Eastern Newfoundland Region will assist the C-NLOPB in selecting a sector for introduction into the scheduled land tenure system in February 2017.

Considerable offshore exploration activity continues in the Newfoundland and Labrador offshore area. There are currently $2.4 billion in outstanding work commitment bids.

Mining



Anaconda. Courtesy: Department of Natural Resources

The value of provincial mineral shipments is expected to total approximately $2.7 billion in 2016, representing a decrease of 4.1% from 2015 (see chart). This decline is largely due to lower volumes of nickel which offset iron ore production gains. Total mining related employment (including employment associated with activities at Vale's Long Harbour nickel processing facility) is expected to average 7,500 person years in 2016.

Market Conditions

Market conditions in 2016 have remained challenging for the Newfoundland and Labrador mining industry, reflecting supply/demand imbalances in global commodity markets. However, there have been signs of improvement in recent months.

Slowing demand growth for iron ore in China, coupled with production increases by a number of key iron ore producers, caused iron ore prices to fall by around 70% from 2012, reaching a low of US$38/tonne in December 2015. However, prices rallied in the first few months of this year and have since stabilized at levels similar to the 2015 average of US$56/tonne (see chart).

Nickel prices have also declined in recent years. Since peaking at US$9.51/lb in May 2014, nickel prices declined steadily throughout 2014 and 2015 reaching a low of US$3.43/lb in February 2016. Prices stabilized over the first half of 2016 and have even rallied somewhat in recent months (see chart). As of early October, nickel prices were around US$4.64/lb.

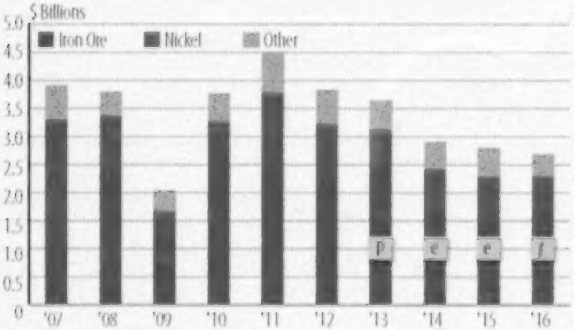
Iron Ore Company of Canada

The Iron Ore Company of Canada (IOC), located near Labrador City, is the province's oldest operating mine. From 2011 to 2014, IOC undertook a $2 billion concentrate expansion program, which increased its rated capacity to 23 million tonnes. Total production from IOC is expected to increase from about 18 million tonnes in 2015 to over 20 million tonnes in 2016. The mine currently generates approximately 1,750 person years of employment and plays a key role in the economy of Western Labrador.

Increasing production to the rated capacity is a major focus for the company in current market conditions. Most of IOC's costs are fixed and increasing production allows the company to reduce its production costs on a per tonne basis.

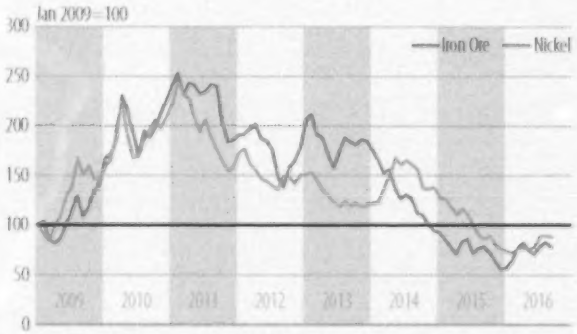
The IOC Wabush 3 project, a new open pit mine located next to the areas currently being mined, has been deferred twice and the company has indicated that safety and production shortfalls have resulted in further delays to the development. Despite these delays, IOC is still expected to seek approval for the proposed expansion from its parent company Rio Tinto at a later date.

Value of Mineral Shipments



p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources; Natural Resources Canada

Mineral Price Indices



Source: Bloomberg

Tata Steel Minerals Canada

Tata Steel Minerals Canada's (TSMC) Direct Shipping Ore (DSO) project, which straddles the Québec-Labrador border, is a joint-venture owned by Tata Steel and New Millennium Iron Corp. The first load of iron ore from the project was shipped in September 2013. Newfoundland and Labrador's share of shipments during 2015 totalled approximately 2 million tonnes.

Weakened iron ore markets have negatively impacted TSMC's operations. In the current environment, the company has determined that it is not economically feasible to operate during the winter months. As a result, the company announced in January 2016 that it was temporarily halting winter operations. Operations resumed in June with the expectation that it will halt operations again for the winter beginning in October.

Provincial shipments in the coming years are expected to fluctuate as TSMC has deposits in both Labrador and Québec, so Newfoundland and Labrador's share of production varies. The project is expected to generate employment of approximately 150 person years in the province in 2016.

Vale

The value of nickel shipped by Vale Newfoundland and Labrador (VNL) is expected to decline by 23.3% in 2016 as a result of lower production volumes and lower market prices. Employment for all aspects of the Voisey's Bay project, including mining operations and Long Harbour operation and development, is expected to be about 4,300 person years for 2016. Construction activity remains by far the biggest contributor to project employment in 2016.

In July 2015, Vale sanctioned the development of the Reid Brook and Eastern Deeps underground mine at Voisey's Bay. Site preparation has begun and construction is planned to begin in May 2017. Once completed, the underground mine is expected to produce about 40,000 tonnes of nickel concentrate that will be processed into finished nickel at the Long Harbour processing plant. These developments will also extend the life of the mine until 2033. Employment at the mine is expected to increase from its current levels of around 500 person years to approximately 900 person years when development is complete.

First nickel production at VNL's Long Harbour nickel processing facility was achieved in July 2014 using imported nickel matte. Voisey's Bay concentrate was introduced in May 2015, and as of January 2016, the plant was operating on 100% Voisey's Bay high grade concentrate. Construction work on the plant has continued through 2016 to increase production capacity and prepare additional circuits for the introduction of lower grade concentrate from Voisey's Bay. This work is expected to be completed by the end of 2016.

Other Mines

Rambler Metals and Mining Canada Ltd. (RMM), on the Baie Verte Peninsula, commenced commercial production in November 2012. The company shipped around 8,700 tonnes of copper concentrate in the first half of 2016, a 13% increase from the same period in 2015. RMM is currently in the process of transitioning from its high grade Ming Mine to the development of the Lower Footwall Zone (LFZ) located 100 meters below the sections currently being mined. The project, if developed, would increase the mine life to 21 years. The mine currently generates around 150 person years of employment annually.

Anaconda Mining Inc. began gold production in 2008 at its Point Rousse Project near Baie Verte. The project shipped approximately 7,500 troy ounces of gold in the first half of 2016 and work has continued on exploring and delineating other deposits in the area. The operation currently

generates around 100 person years of employment per year.

The province's construction aggregate industry is expected to ship approximately seven million metric tonnes valued at $27.5 million and generate around 550 person years of employment in 2016.

Exploration and Development

Canada Fluorspar Inc. (CFI) is developing a surface and underground mining project in St. Lawrence. The project was released from environmental assessment in November 2015 and early site work began in June of this year. As well, Search Minerals recently completed a preliminary economic assessment of a rare earth element mine in the Port Hope Simpson area. The company has a $1.9 million demonstration plant underway and is in the process of conducting further testing and evaluation of the project while looking for investment partners.

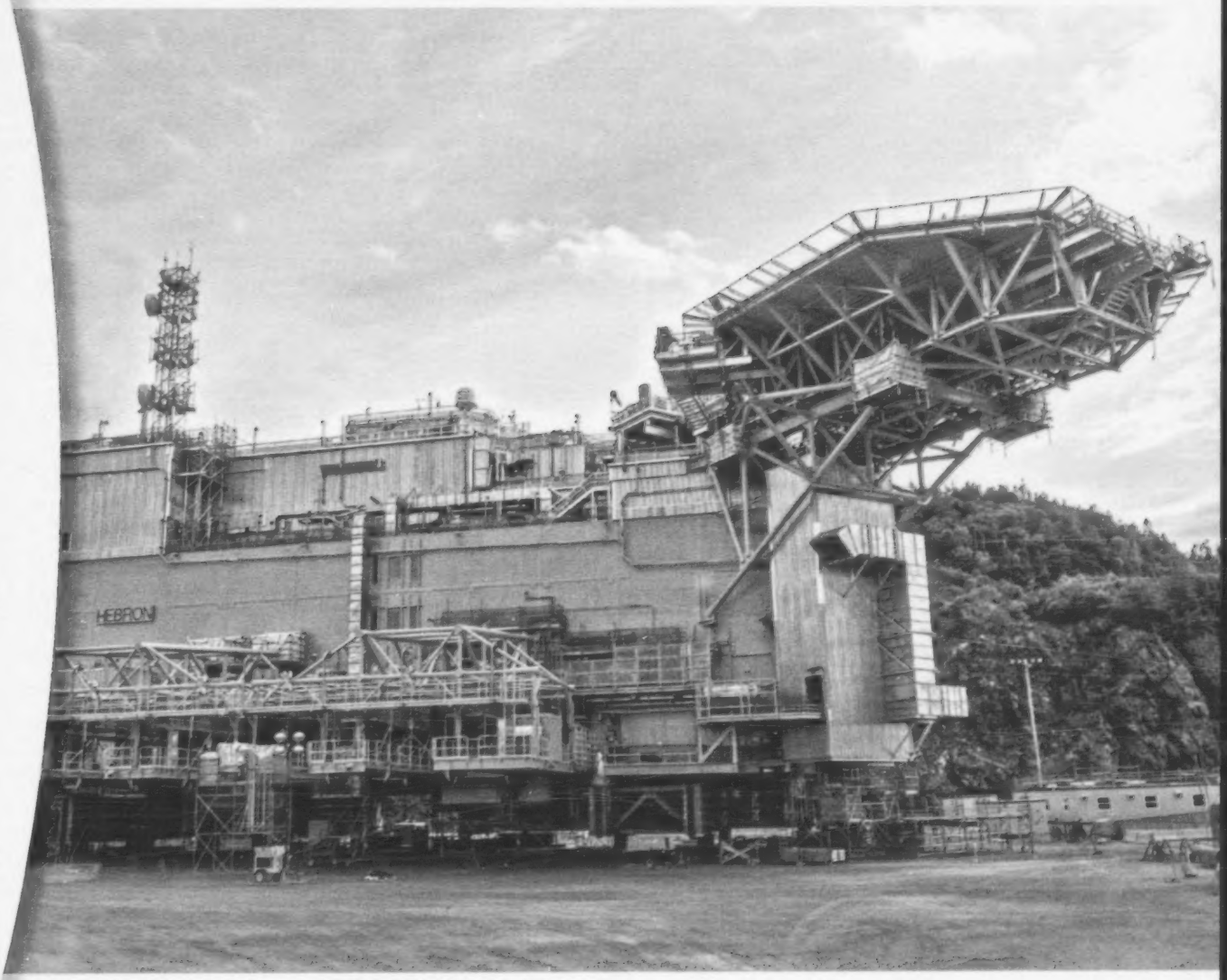
Due to the weak commodity markets, several mining projects in various stages of advancement have been cancelled, postponed or scaled back. Alderon Iron Ore Corp. indefinitely deferred the development of its Kami iron ore project in 2014 and Paladin Energy Ltd. has placed the development of the Michelin Uranium Project into care and maintenance mode, with a reassessment of the project scheduled for July 2017. In September 2015, New Millennium Iron Corp. (NML) and Tata Steel announced that they had reevaluated the development of a proposed iron ore mine straddling the Québec-Labrador border. The development, named the NuTac project, will now consider a number of smaller scale projects that rely more on existing infrastructure.

Exploration activities are expected to decline again in 2016 though some work is continuing. Companies such as RMM and Anaconda have undertaken exploration at or near current operations in an attempt to identify new resources and extend each operation's respective mine life.

In addition, a number of junior companies have explored for a wide range of minerals including gold, base metals, nickel, potash and salt. Exploration expenditures for 2016 are expected to total $20 million, down 57.6% from 2015.

While the short-term is expected to remain challenging for mineral exploration and development, the province has a vast wealth of mineral resources that offer tremendous future potential as market conditions improve.

Manufacturing



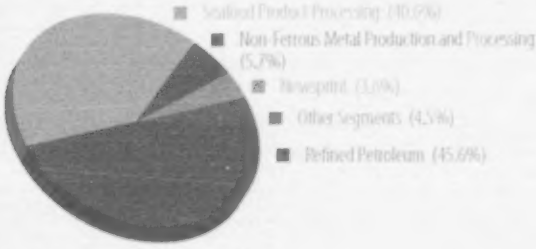
Hebron Living Quarters, Bull Arm. Courtesy: ExxonMobil Canada Properties

Newfoundland and Labrador's manufacturing industry contributed $1.3 billion to nominal GDP in 2014, representing 4.2% of total provincial GDP. Manufacturing employment in 2015 was approximately 11,400 person years and accounted for 4.8% of total employment in the province. The U.S. remains the largest export market for Newfoundland and Labrador manufacturers, representing 71.8% of the total thus far this year.

There are many manufacturers in the province producing a wide variety of products, with the majority of manufacturing output concentrated in refined petroleum, food processing (primarily fish), fabricated metal manufacturing, non-ferrous metal production and processing, and newsprint (see chart). The value of manufacturing shipments totalled $2.7 billion in the first seven months of 2016, representing a decrease of 21.8% compared to the same period last year (see chart). This decline was mainly due to a drop in the value of refined petroleum products.

International Manufacturing Exports

January to August 2016



Source: Industry Canada

Employment in the manufacturing industry averaged approximately 10,400 in the first nine months of 2016—down 13.0% from the same period in 2015. Losses in employment were mainly due to decreases in food and beverage manufacturing, fabricated metal product manufacturing, and transportation equipment manufacturing. These losses more than offset gains in wood product manufacturing and miscellaneous manufacturing. Labour income in the manufacturing industry grew 1.4% in the first half of 2016 compared to the first half of 2015, the result of wage gains.

The North Atlantic refinery in Come by Chance, located along Atlantic crude oil shipping routes, provides Silverpeak Strategic Partners (the owners of the refinery since November 2014) access to petroleum markets in Europe and the eastern U.S. seaboard. Silverpeak has committed to investing capital and improving operations at the refinery. In particular, they completed a crude unit turnaround program in October 2016 to recertify equipment

NARL Refining, LP (North Atlantic), Come By Chance. Courtesy: NARL Refining, LP

and increase crude oil throughput capacity from 115,000 barrels to 130,000 barrels per day. This work will support continued operations, employment and economic benefits in the province. Capital expenditures at the Come by Chance refinery for 2016 are expected to total approximately $110 million. The value of petroleum exports from the refinery for the first seven months of 2016 decreased significantly compared to the same period in 2015. This drop in value can mainly be attributed to a decline in production as Silverpeak reduced the daily throughput at the refinery because of a problematic heater.

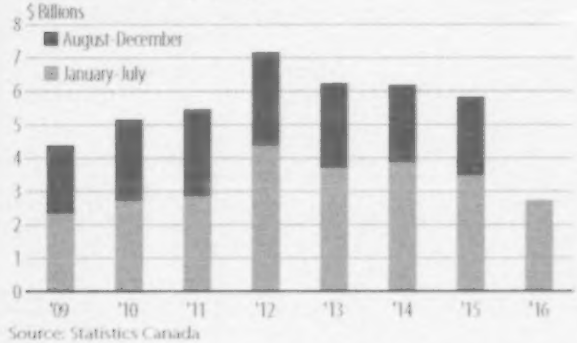
Fish processing plays a significant role in Newfoundland and Labrador's manufacturing industry. The value of international seafood product exports totalled approximately $775 million in the first eight months of 2016—on par with the same period in 2015.

Fabricated metal manufacturing continues to benefit from the development of various major projects in the province. However, activity is expected to decline in 2016 as several components of the Hebron project were completed in 2015 and early 2016. In the January to July period of this year, the value of fabricated metal manufacturing shipments totalled $133 million, representing a decrease of 21.0% relative to the same period in 2015. Similarly, fabricated metal manufacturing employment fell significantly over the first nine months of this year, averaging around 640—a drop of 45.3% from the same period last year.

International exports of non-ferrous metal production and processed products totalled almost $105 million in the first eight months of 2016—up 190% from the same period in 2015. This substantial increase is the result of Vale Newfoundland and Labrador's continued ramping up of operations at its Long Harbour nickel processing facility. Vale achieved successful production of first nickel at Long Harbour in July 2014, using a blend of high purity raw material from Indonesia and small quantities of ore from Vale's mine in Voisey's Bay. In 2015, the components required to process Voisey's Bay high grade concentrate were integrated into the process, resulting in the plant using 100% Voisey's Bay concentrate as of January 2016. The remaining components to process all Voisey's Bay concentrate (both high and middling grades) will be completed in the fourth quarter of 2016 (see *Mining* for details).

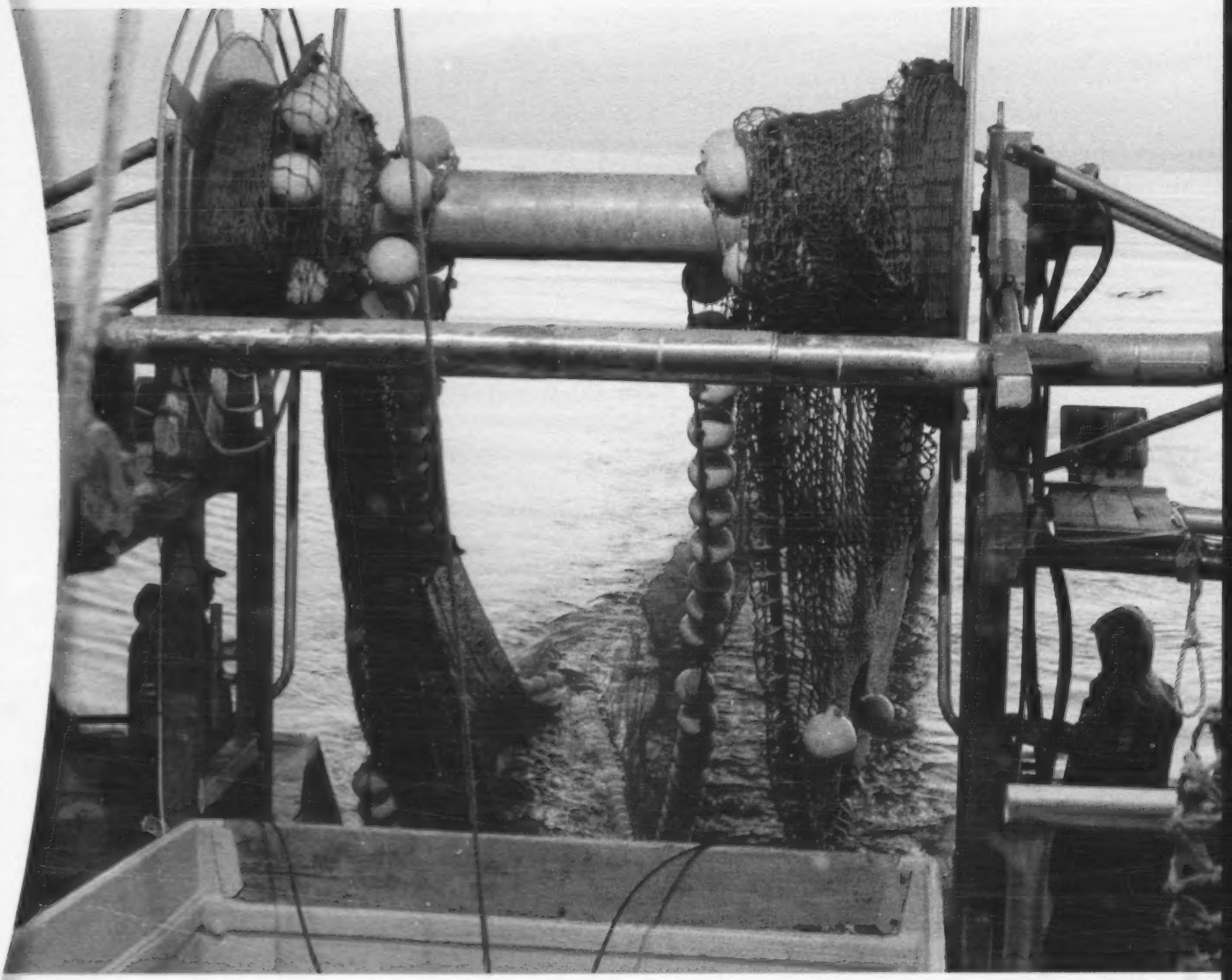
The volume of newsprint shipped from Corner Brook Pulp and Paper Limited fell in the first nine months of 2016, decreasing 2.9% compared to the same period in 2015. However, the estimated value of shipments rose 3.1% on a year-over-year basis due to higher Canadian dollar prices as the Canadian dollar depreciated relative to the U.S. dollar (see *Forestry* for details).

Manufacturing Shipments



Source: Statistics Canada

Fishery and Aquaculture



Shrimp Harvesting. Courtesy: Department of Fisheries, Forestry and Agrifoods

The seafood sector is an important part of Newfoundland and Labrador's economy, particularly for rural communities. After a record breaking year in 2015, the value of commercial landings is expected to remain high this year. The value of commercial landings is expected to reach over $720 million in 2016, a decrease of 7.2% compared to 2015. Meanwhile, aquaculture production and value are expected to continue to increase.

Change continues throughout the fishery. It appears as though the industry is entering a transition period from a shellfish dominated ecosystem back to one more favourable for groundfish. Also, continuing a downward trend that started many years ago, the number of people employed in the industry is expected to decline in 2016, resulting from both fewer processing plant workers and harvesters. The processing sector employed approximately 7,500 workers in 2016, compared to 7,721 workers in 2015. Harvesting employment is expected to decline from 9,334 harvesters in 2015 to approximately 9,250 harvesters this year.[2]

Capture Fisheries

Recent stock assessments indicate that many of the province's groundfish stocks continue to show signs of recovery. While the northern cod stock is far from full recovery, it has increased considerably over the past decade and is expected to grow more over the next few years. Meanwhile, warmer water temperatures appear to be having a negative impact on the abundance of some key shellfish resources. Recent assessments indicate that the snow crab resource continues to decline, particularly off the northeast coast and south coast of the island portion of the province. Northern shrimp also continues to decline off the east coast of the island and southern Labrador, while generally remaining stable in areas to the north.

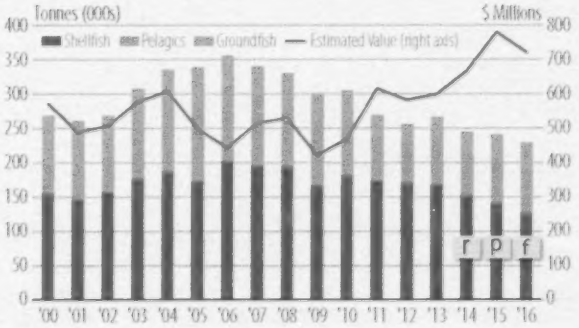
To help prepare for the transition from a predominately shellfish to a groundfish fishery, the Province recently approved over $1.9 million in funding to 34 projects through the Seafood Innovation and Transition Program. The program will prepare the harvesting and processing sectors to adopt more efficient technologies to increase utilization, higher returns and decreased production costs with a goal of delivering a higher quality, more competitive product to market.

Largely due to resource supply constraints, total fish landings are expected to decrease to 229,000 tonnes in 2016, a 5.0% decline compared to 2015 (see chart). Driving this projected decrease in landings are anticipated declines in shellfish catches, particularly shrimp and snow crab. Total landed value is expected to be $723 million in 2016, a 7.2% decline from the previous year.

Shellfish

Shellfish landings are projected to decline 10.7% to 127,000 tonnes this year due to lower catches of shrimp and snow crab. A significant projected increase in the "other shellfish" category (+54%) is expected to partially offset this decline.[3] The corresponding landed value for shellfish is

Capture Fishery Landings



r: revised; p: preliminary; f: forecast
Source: Fisheries and Oceans Canada; Department of Fisheries, Forestry and Agrifoods

[2] Processing employment data are from the Department of Fisheries, Forestry and Agrifoods's annual employment survey and are based on the number of individuals working at some time during the year. The harvesting employment data are based on the number of fish harvesters registered with the Professional Fish Harvesters Certification Board. These data differ from Statistics Canada Labour Force Survey data (included in the table on page 49) which uses a person year concept of employment.

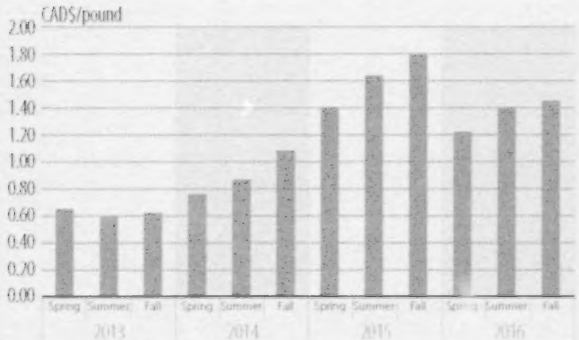
[3] Other shellfish includes surf clams, sea cucumber, other crab, other molluscs and other crustaceans.

expected to decline 8.5% to around $595 million, due mainly to a lower value of shrimp landings.

In July of this year, Fisheries and Oceans Canada set the total allowable catch (TAC) for shrimp in Shrimp Fishing Area (SFA) 6 at 27,825 tonnes (a 42.3% year-over-year reduction).[4] Also announced this year was the end of the controversial Last In, First Out (LIFO) approach to eastern shrimp quotas. If the LIFO approach had remained in place, it would have resulted in the vast majority of the announced quota cuts accruing to the inshore fleet. It was argued that this scenario would have disproportionately affected the inshore fishery, closing local fish plants and negatively impacting rural communities in Newfoundland and Labrador. The result of the removal of LIFO now allots 69.6% (or 19,366 tonnes) of the shrimp quota to the inshore fleet, leaving 23.1% for the offshore fleet and the remainder divided amongst the community and special allocations (which are virtually all harvested by the offshore sector).

As a result of the decline in the TAC, shrimp landings are projected to post the largest decline of any shellfish species in 2016, down 23.6% to 56,000 tonnes. The minimum landed prices paid to harvesters for inshore shrimp in the 2016 spring fishery was $1.22/pound, down from $1.40/pound in 2015, reflecting lower market prices due to lower demand and high inventory levels. Summer and fall prices were also down this year, declining from $1.64/pound and $1.79/pound to $1.40/pound and $1.45/pound, respectively (see chart).

Minimum Landed Price
Paid to Harvesters Inshore Shrimp



Source: Fish Food & Allied Workers Union

Snow crab landings are forecasted to total 41,700 tonnes in 2016, down 11.9% (or almost 5,600 tonnes) compared to last year due mainly to a 15% decrease to the Newfoundland and Labrador quota. However, the corresponding landed value is expected to increase 6.2% to $274 million due to higher prices. The 2016 landed price for snow crab averaged $2.98/pound compared to $2.41/pound in 2015, reflecting higher market prices. A significantly lower global supply of snow crab this year put upward pressure on market prices.

Groundfish

Groundfish landings, driven by increased catches of cod and flounder, are expected to rise 11.6% to 39,000 tonnes in 2016. However, the corresponding landed value for groundfish is expected to be $108 million, a decline of 2.0% from 2015. Market prices for cod may be slightly stronger in 2016 as demand in the U.S. and Europe is increasing. However, this is not expected to offset falling prices for some other groundfish species, particularly turbot and redfish.

Pelagics

Pelagic landings are forecast to remain relatively on par with 2015 at 63,000 tonnes. Landings of the three key pelagic species (mackerel, capelin and herring) are expected to be similar to 2015 volumes. The corresponding landed value for pelagics is forecast to increase by 5.0% to around $19 million.

Aquaculture

Aquaculture production continues to be a major contributor to provincial seafood production. Total production is projected to increase to approximately 24,000 tonnes in 2016, up from 22,815 tonnes in 2015. This level approaches

[4] SFA 6 is located adjacent to the northeast coast of Newfoundland and the southeast coast of Labrador.

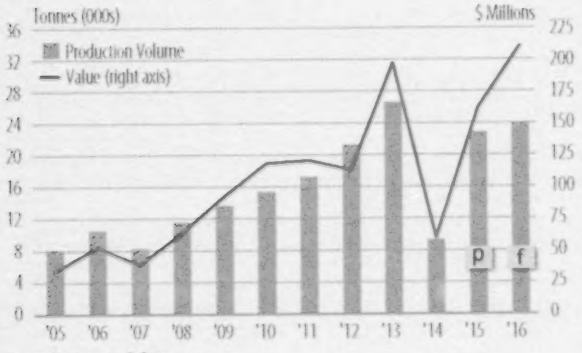
the peak level of production of 26,551 tonnes produced in 2013. Direct employment for the aquaculture industry in 2016 is estimated at 439 persons, just slightly above 435 last year.

Increased salmonid production is anticipated in 2016, with production volume projected to reach approximately 21,000 tonnes. Salmonid market value is also expected to rise to approximately $198 million, up from $149 million in 2015 due to both higher volume and higher prices. Product prices, in Canadian dollars, significantly increased over the first half of 2016 compared to 2015. The average market price between January and August 2016 for 8-10 pound wholefish Atlantic salmon was $4.36/pound. In August alone, average market price was $4.51/pound, up from $3.49/pound in August 2015.

Mussel production is expected to be approximately 3,000 tonnes in 2016, on par with 2015. The corresponding production value is projected to reach $12.7 million. Mussel prices have remained stable over the past year with small fluctuations due to changes in exchange rates. The average price per pound between January and August 2016 is $1.88, while the 2015 average was $1.91. US market prices have been consistently reported at US$1.45/pound since July 2014.

In terms of future investment, Grieg NL Seafarms Ltd. has proposed a $250 million salmon farm in Placentia Bay that includes a $75 million hatchery in Marystown. The project would more than double the province's current aquaculture production, expanding the industry into a new area of the province. An estimated 325 direct and 235 indirect/induced person years of employment would be realized annually with the production, harvesting and processing, with further opportunities in the supply and service sectors.

Aquaculture Production Volume and Value
(all species)



p: preliminary; f: forecast
Source: Department of Fisheries, Forestry and Agrifoods

Processing and Marketing

Preliminary estimates of seafood production indicate that production totalled approximately 118,000 tonnes during the January to mid-October 2016 period, down 12.2% from the same period in 2015. This decline in production is a combination of lower shellfish, groundfish and pelagic production.

To date, there were 97 licensed fish processing plants in the province, unchanged from 2015. Of these, 81 were primary processing facilities (including aquaculture). The remaining 16 were involved in either secondary processing or retail (i.e. retail businesses with a licence to process fish for the provincial market only).

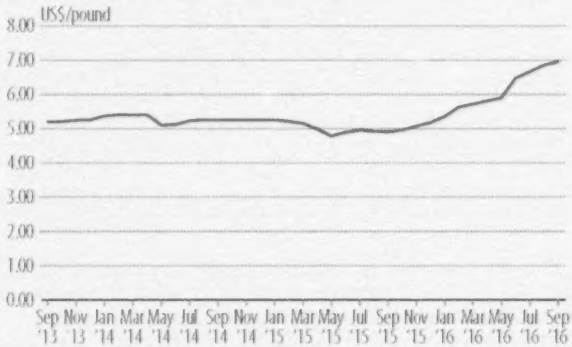
The global fish and seafood market has grown steadily in recent years and this growth is expected to continue, supported by increased health consciousness and the desire for quality seafood among consumers. Seafood volumes are growing at a slightly slower pace than values, indicating the impact of increased values in developing markets. The difference in growth rate between volume and value continues to be more prevalent in Asia-Pacific and South America. Crab, lobster and salmon prices were higher in 2016 primarily due to supply shortages and favorable USD exchange rate.

Together, the United States and China accounted for over 70% of the export value for the province's seafood products from January to August 2016. The United States remains the largest market and represents 56.6% of total export value, while

China accounted for 14.1%. Other major markets include the United Kingdom (5.7%), Japan (4.2%), Hong Kong (3.9%) and Vietnam (2.6%). From January to August of this year, Newfoundland and Labrador seafood product exports were valued at approximately $775 million, on par with the same period in 2015.

During 2016, snow crab processors have benefitted from the lower Canadian dollar and higher market prices. The year-to-date (January to September) average market price was 24% higher in 2016 compared to 2015 (US$6.21/pound compared to US$5.01/pound—see chart); in Canadian dollars, market prices have increased 28%. Meanwhile, the record high market prices for shrimp seen throughout much of 2015 began to drop towards the end of last year and into the early part of 2016. The price of 150-250 count shrimp over the January to September 2016 period in the Danish market averaged $6.86/pound, down 21.2% from the same period in 2015. Seafood markets are generally in good shape from a Canadian exporter's perspective, as the Canadian dollar is lower relative to other currencies. This provides some advantages over other competitors.

5-8 Ounce Snow Crab Market Prices



Source: Urner Barry

Capelin Harvesting. Courtesy: Department of Fisheries, Forestry and Agrifoods

Forestry and Agrifoods

Loading Pulpchips at Burton's Cove Logging and Lumber Sawmill, Hampden. Courtesy: Department of Fisheries, Forestry and Agrifoods

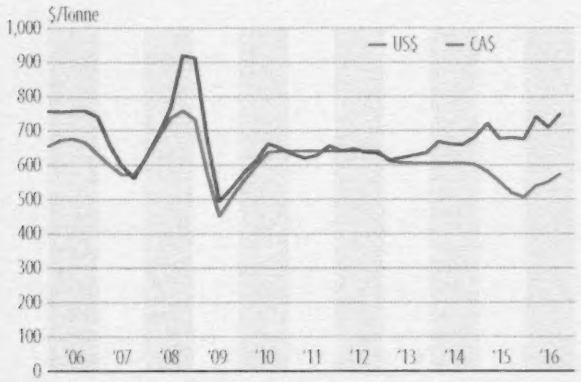
Newsprint

North American Industry

North American newsprint producers continued to struggle with difficult market conditions in 2016. Newsprint shipments declined by 7.2% during the first seven months of 2016. Shipments within North America and to oversea destinations were both down.

North American newsprint demand has declined for more than a decade, reflecting the growing popularity of digital media. Demand for newsprint dropped by two-thirds between 2000 and 2015. The industry has tried to limit the supply of newsprint in efforts to support higher prices, yet the market remains oversupplied due to the steady decline in demand. This has induced downward pressure on newsprint prices. The price of newsprint averaged US$554/tonne in the first nine months of 2016, 0.8% higher than the same period in 2015. Although the price of newsprint showed some improvement during this year, it remains 10.2% lower than the average price of 2012 to 2014. However, Canadian newsprint producers have not borne the full impact of the price decline due to the depreciation of the Canadian dollar. In Canadian dollars, the average price of newsprint increased by 5.9% in the first nine months of 2016.

North American Newsprint Prices



Source: TD Financial Group; Pulp and Paper Weekly; Bank of Canada; Department of Finance

Provincial Industry

The provincial newsprint industry has faced challenges similar to those of the overall North American industry, with the number of newsprint facilities reduced from three to one over the last decade. The remaining facility is owned by Corner Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Industrial. CBPPL employs close to 550 full-time and casual workers among the paper mill, forest operations and power plants.

CBPPL has engaged in a long-term sustainability plan, facilitated by a loan agreement with the Provincial Government, announced in 2014. Under the terms of the agreement, CBPPL has access to a fully repayable loan of up to $110 million, secured by a mortgage on the company's power assets and water rights, including the Deer Lake Power Plant and Watson's Brook Power Plant. The loan is being used by the company for debt restructuring and capital improvements at the Corner Brook facility and the Deer Lake Power Plant, and has enhanced the sustainability of the mill. Rebalancing the operation of the mill is important to the Corner Brook region and also has implications for the sawmill industry, which exchanges raw material with the paper mill for mutual benefit.

Provincial newsprint shipments during the first three quarters of the year totalled 180,585 tonnes, down 2.9% compared to the same period in 2015. The estimated value of shipments increased by 3.1%, benefitting from a low Canadian dollar.

Lumber Production

Lumber prices increased from US$373/thousand board feet in August 2015 to US$431 in August 2016 (see chart). U.S. housing starts are an important contributor to lumber demand, but so far in 2016, growth in housing starts has slowed compared to last year. However, growth in single housing starts is now surpassing that in multiple housing, which bodes well for lumber demand as

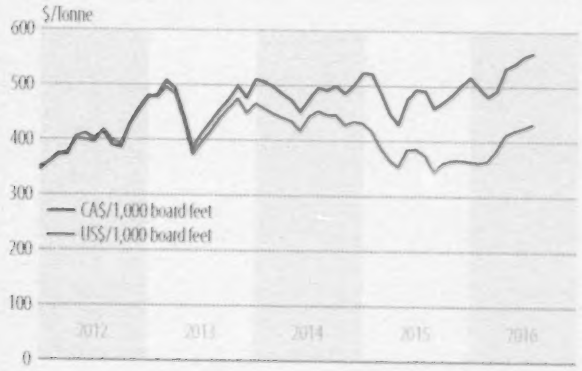
a single housing unit consumes about three times as much lumber than a housing unit of multiple variety.

Canadian lumber production totalled 14.7 billion board feet in the first six months of 2016, up 8.0% compared to the same period in 2015. British Columbia accounted for about one half of this production. During this period, Canadian lumber exports increased by 19.6%–exports to the U.S. increased by 30.3% (78.5% of lumber exports) while exports to China decreased by 8.9% (12.0% of lumber exports).

Newfoundland and Labrador lumber production is expected to increase in 2016 as a result of improved saw log availability and new capital investments. Production is expected to increase from 73 million board feet in 2015 to 76 million in 2016.

A potential source of trouble for Canadian lumber exporters is the resurgence of the U.S.-Canada lumber trade dispute. Under the Softwood Lumber Agreement, which expired in October 2015, there was a standstill period whereby the U.S. could not launch any trade sanctions until October 2016. Negotiations and discussions regarding a new trade agreement are still ongoing. The general consensus is that the U.S. will initiate a formal investigation into Canadian forestry practices, with a possible imposition of anti-dumping or countervailing duties being applied on all Canadian softwood exports to the U.S. If past patterns prevail, a lengthy litigation process would likely follow.

Lumber Prices



Note: Price is for Kiln Dried Eastern Spruce-Pine-Fir # 1&2 2x4 R/L - Delivered Great Lakes
Source: Random Lengths Weekly Pricing; Department of Fisheries, Forestry and Agrifoods; Bank of Canada; Department of Finance

Future Development

The Provincial Government continues to work towards an agreement on the utilization of forest resources in central Newfoundland, which were formerly held by AbitibiBowater until the closure of the Grand Falls-Windsor mill in 2009. The unallocated wood supply available for development is 280,000m^3 per year (representing approximately 12% of the annual allowable wood supply for the island portion of the province). The Province issued a Call for Expressions of Interest in 2013 to develop these unallocated timber resources.

Although the formal process of the Call for Expressions has concluded, the Provincial Government continues to consider proposals from other proponents for this region. There is also interest for the development of Labrador forest resources, with projects under consideration.

In January 2016, the Department of Fisheries, Forestry and Agrifoods achieved the ISO 14001:2004 environmental management system certification. The certification is compulsory for all forestry activities carried out on Crown land in the province. This standard emphasizes the Province's commitment to sustainable forest management and opens access to additional certifications in the industry. Obtaining this certification has several associated benefits, such as cost savings in waste management, reduced insurance costs, better risk management, and competitive marketing advantages for local wood product manufacturers. This will not impact annual harvest amounts as the industry is already harvesting at a sustainable rate.

Agrifoods

The provincial agriculture industry is a diverse and growing component of the Newfoundland and Labrador economy. There are slightly more than 500 agricultural enterprises that produced $130 million worth of farm gate sales in 2015, up nearly 3% over 2014 values. Indications are for another increase in 2016 as production of broiler chicken, eggs, and milk are increasing. Those three sectors constitute about two thirds of the production at farm gate value.

Land development continues to be a main priority for the industry. The Agrifoods Development Branch has identified approximately 130,000 acres of land available for agriculture. The largest areas are in southwestern Newfoundland, the Humber Valley region, Clarenville area and western Avalon.

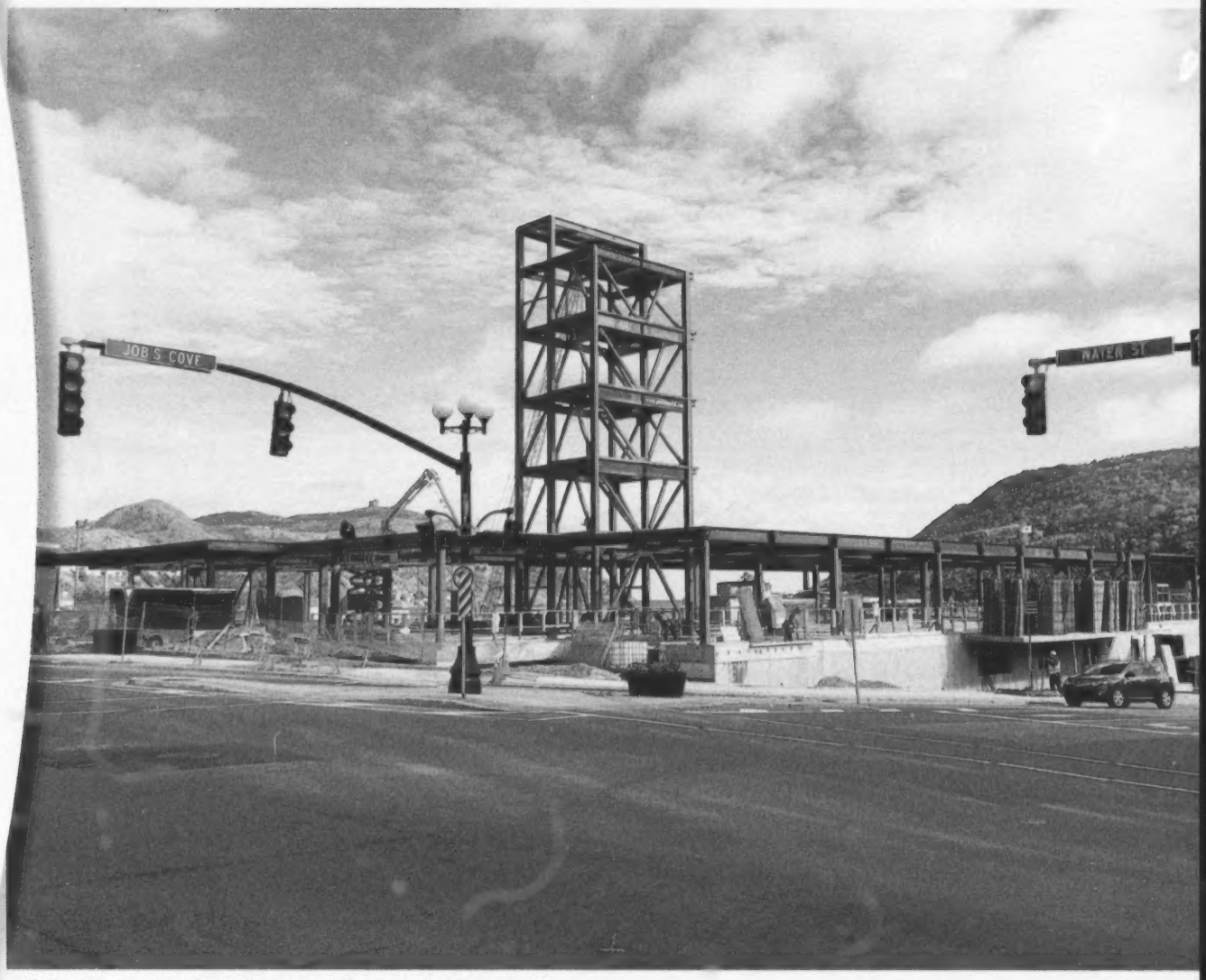
Grains and Oilseeds

The Agrifoods Development Branch of the Newfoundland and Labrador Department of Fisheries, Forestry and Agrifoods has been conducting an agricultural feed program to assess the viability of increasing local production of livestock feed. The vast majority of Newfoundland and Labrador livestock requirements for grain and oilseeds are imported from mainland Canada, but the quality of these imported feeds can vary due to the long storage and travel times. Developing local sources for livestock feed would offer a number of benefits to the province including reduced energy use in transport, crop diversification and, most importantly, lower costs and higher quality feed. Additionally, the straw from grain is valuable to various industries beyond livestock.

The program, which began in 2012, has seen significant success with a harvest of 350 acres of grain in 2016. This is expected to grow to over 500 acres in 2017. Cultivated grains include winter and spring wheat, barley, oats and rye. Agrifoods has also begun a canola assessment trial. The initial results of the trial have been very encouraging and have confirmed that canola can successfully be grown in the province. Agrifoods continues to work with local stakeholders to develop the industry and to identify future market opportunities.

Winter Wheat, Pasadena. Courtesy: Department of Fisheries, Forestry and Agrifoods

Construction



Alt Hotel Construction, St. John's. Courtesy: Department of Finance (Neil Morrow)

Activity in the construction industry has declined somewhat over the past couple of years, but remains high by historical standards. Construction related investment is expected to decline 1.3% to $9.3 billion in 2016 (see chart). In the first nine months of 2016, employment in the construction industry averaged approximately 21,500, down 2.8% from the same period in 2015. Even though construction employment fell in 2016 and wage growth slowed, both employment and wages have more than doubled since 2001 and remain at very high levels.

Investment Expenditures

Construction industry activity is generated by two types of spending: non-residential spending (i.e. government capital spending, private sector investment, etc.) and residential investment (i.e. construction of new homes, renovations of existing homes, etc.). A significant portion of non-residential construction related expenditures are attributable to the utility, mining and oil and gas extraction industries. Investment in mining and oil and gas this year includes both the expansion of current oil projects, such as Hibernia and White Rose, as well as construction related to the ongoing development of the Hebron project. Investment in the utilities industry reflects work on the Muskrat Falls project.

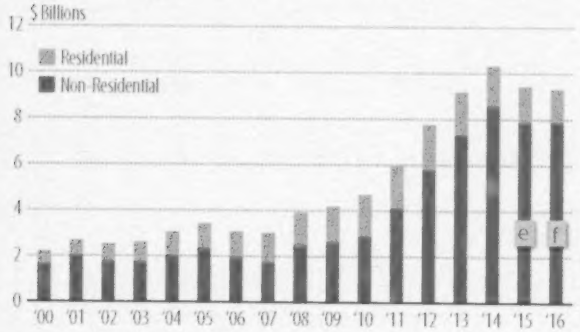
Overall, increased spending on the Muskrat Falls project and the Hibernia and Terra Nova oil projects is expected to offset lower capital spending on the Hebron and White Rose oil projects and lower government capital spending. As a result, non-residential construction related spending in 2016 is expected to remain on par with 2015 levels.

In the first half of 2016, investment in residential construction fell 5.3% to $676 million as housing starts continued to decline. Expenditures on renovations (up 0.3%) partially offset declines in expenditures on new dwellings (down 14.7%). The decrease in expenditures for new dwellings is consistent with fewer housing starts this year (see *Real Estate*).

Employment and Wages

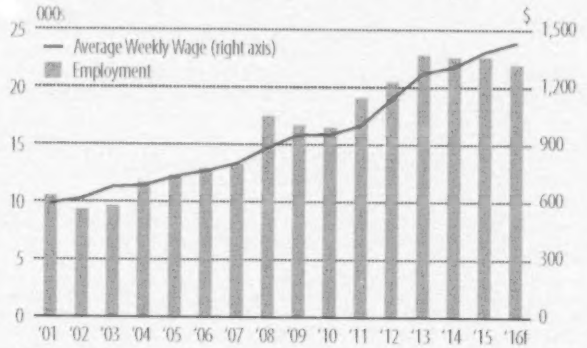
The surge in construction investment in the province since 2007 is reflected in construction industry labour market indicators. Employment, though down in 2016, has been at historically high levels in the last several years (see chart). In the first nine months of 2016, construction industry employment averaged around 21,500, representing a decrease of 2.8% relative to the same period in 2015. Higher employment on the Muskrat Falls project, at the nickel processing facility in Long Harbour and at the underground mine in Voisey's Bay were unable to offset lower employment on the Hebron project and reduced residential construction activity.

Construction Related Investment



e: estimate; f: forecast
Source: Statistics Canada; Department of Finance

Construction Employment and Wages



f: forecast
Source: Statistics Canada; Department of Finance

Construction wages increased considerably over the past eight years. Between 2007 and 2015, average weekly wages in the construction industry increased nearly 73%. Despite the decline in capital expenditures and employment in 2016, average weekly earnings continue to trend upwards. Over the first seven months of 2016, weekly wages in construction averaged over $1,425, an increase of 3.4% compared to the same period in 2015. Amongst provinces, only Alberta recorded a higher weekly wage than Newfoundland and Labrador.

Ongoing major project development, public sector infrastructure spending and a number of new commercial and industrial projects have been the primary drivers of the recent historically high levels of construction activity in Newfoundland and Labrador.

Real Estate

New housing construction. Courtesy: Department of Finance (Phil Hoskins)

Provincial real estate activity continued to moderate in 2016. In the residential market, housing starts fell; however, the number of houses sold increased slightly. In the commercial sector, vacancy rates edged upwards reflecting both an increase in supply and slowing demand.

Housing Starts

Housing starts in the province totalled 1,018 units during the first three quarters of 2016, a decrease of 15.8% compared to the same period in 2015. Most of this decrease was due to a drop in multiple starts (which include denser housing types such as row, semi-detached homes, apartments and condominiums). In the first three quarters of 2016, multiple starts decreased by 37.5%, from 307 to 192 units, while single-detached housing starts, which typically account for the vast majority of total starts in the province, declined by 8.4%, from 902 to 826 units.

Urban housing starts, which comprise approximately two-thirds of housing starts in the province, totalled 716 units over the first three quarters of the year, a 14.6% decrease from the 838 starts observed over the same period in 2015. Rural housing starts also fell, down 18.6%, from 371 to 302 units.

The St. John's Census Metropolitan Area (CMA), which is the single largest housing market in the province, also experienced a drop in housing starts. During the first three quarters of the year, multiple starts decreased 37.7% in the region, from 212 to 132 units, while single-detached housing starts declined 10.4%, from 502 to 450 units.

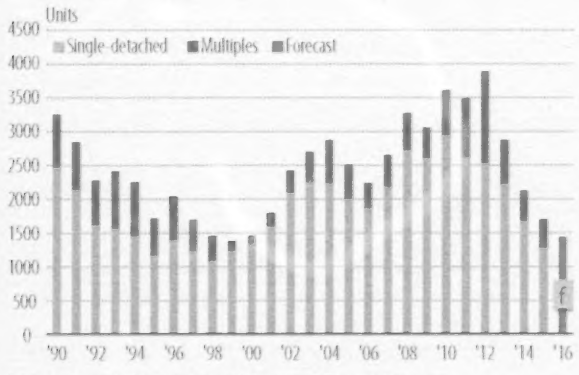
For 2016 as a whole, total provincial housing starts are forecasted to be 1,428 units (see chart). If realized, this would represent a decrease of 15.8% from 1,697 units in 2015.

Residential Sales and Prices

The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service (MLS®) rose 1.6% to 3,122 units during the first three quarters of 2016 compared to the same period in 2015. The average MLS® residential price in the province was $257,649 in the first three quarters of 2016, a decrease of 7.8% compared to the average price of $279,584 recorded during the same period in 2015.

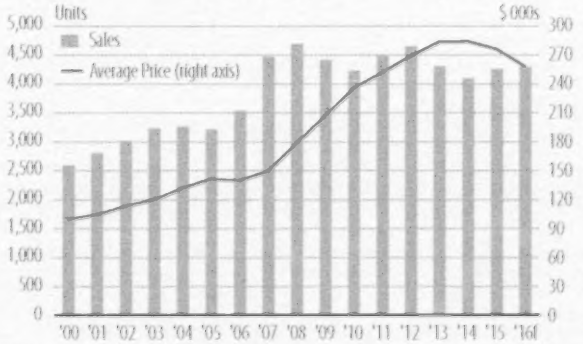
The ratio of sales-to-new listings is commonly used as an indicator of housing market conditions. A housing market is generally considered balanced when the sales-to-new listing ratio ranges from 40% to 60%. A ratio below 40% indicates a buyers' market, while a ratio above 60% indicates a sellers' market. In the first three quarters of 2016, the sales-to-new listings ratio in the province averaged 34.0%, essentially unchanged compared with the same period in 2015 and still well into the buyers' market territory.

Housing Starts



Source: Canada Mortgage and Housing Corporation

Residential MLS® Sales and Average Price



f: forecast

Source: Canadian Real Estate Association

The increase in the number of residential properties sold provincially was primarily due to an increase in sales activity outside the St. John's CMA. Inside the St. John's CMA there were 1,048 residential units sold in the first two quarters of 2016, a decrease of 6.9% compared to the 1,126 units sold during the same period in 2015. The average MLS® residential price in St. John's was $294,739 in the first two quarters of 2016, a decrease of 5.0% compared to the first two quarters of 2015.

Rental Market

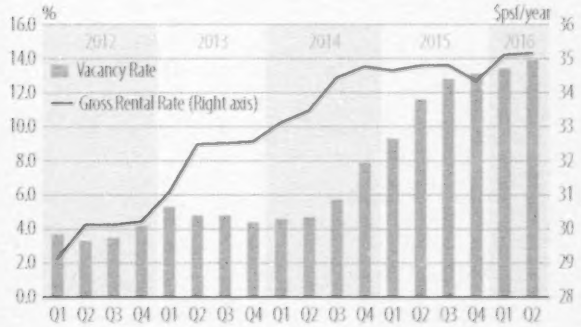
According to the Canada Mortgage and Housing Corporation's most recent Rental Market Survey, the overall residential vacancy rate in Newfoundland and Labrador was 4.1% in October 2015. The vacancy rate was 4.7% in St. John's, 2.9% in Corner Brook, 2.7% in Gander, and 2.6% in Grand Falls-Windsor.

The average monthly rent for a two-bedroom apartment in the province in October 2015 was $834. By comparison, the average rent for a two-bedroom apartment was higher in Nova Scotia ($992), but lower in Prince Edward Island ($814) and New Brunswick ($744).

Commercial

Economic growth in recent years has led to a significant expansion in the demand for commercial office space. In particular, demand for office space from oil companies and firms

Office Vacancy and Rental Rates, St. John's



psf: per square foot
Source: Cushman & Wakefield Atlantic

New Federal Mortgage Rules

On October 3, 2016, the Government of Canada announced mortgage rule changes that could have a significant impact on the residential housing market.

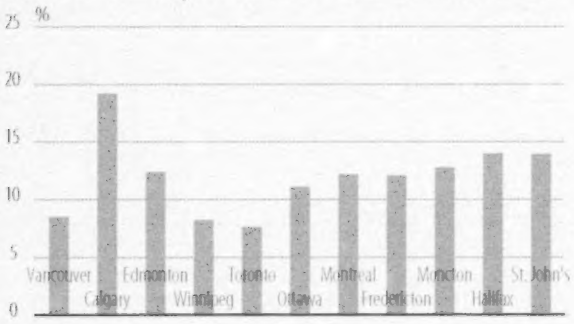
1. As of October 17, 2016, all insured homebuyers will be required to qualify at the Bank of Canada's five-year fixed posted rate or their contract mortgage rate, whichever is higher. Since the Bank of Canada's posted rate is generally higher than the mortgage contract rate, qualifying at this higher rate will serve as a "stress test" to ensure that homebuyers are able to afford their mortgage payments if interest rates rise.
2. Mortgage lenders now have the option of using portfolio insurance for homebuyers who have a down payment of 20% or more of the property purchase price. This portfolio (bulk pooled) insurance is typically paid for by the lender. As of November 30, 2016, mortgage loans that lenders insure using portfolio insurance must meet the same eligibility requirements that had previously only applied to homebuyers making less than a 20% down payment. These eligibility criteria include a maximum amortization period of 25 years, qualification based on a rate at least equal to the Bank of Canada's five-year fixed posted rate, a maximum purchase price of $1,000,000, and a property that will be owner-occupied.
3. To stem the flow of foreign cash into the housing market, the Federal Government also announced changes to the income tax system that will effectively close a loophole that allowed non-residents of Canada to avoid paying capital gains tax on the sale of a property.

Source: Department of Finance Canada

that support oil companies led to a surge in new and renovated office space construction. There is now an abundant supply of new office space and tenants have more options and can be more demanding when negotiating a lease or more selective when moving and relocating. As a result, the absorption of vacant office space into the market has slowed, leading to a rise in the vacancy rate in the St. John's CMA. The office vacancy rate for St. John's in the second quarter of 2016 was 13.9% (see chart). By comparison, the vacancy rate was slightly higher in Halifax (14.0%) and lower in Moncton (12.8%) and Fredericton (12.1%). Vacancy rates were also comparatively high in Edmonton (12.4%) and much higher in Calgary (19.2%), two markets that have been negatively affected by the drop in oil prices.

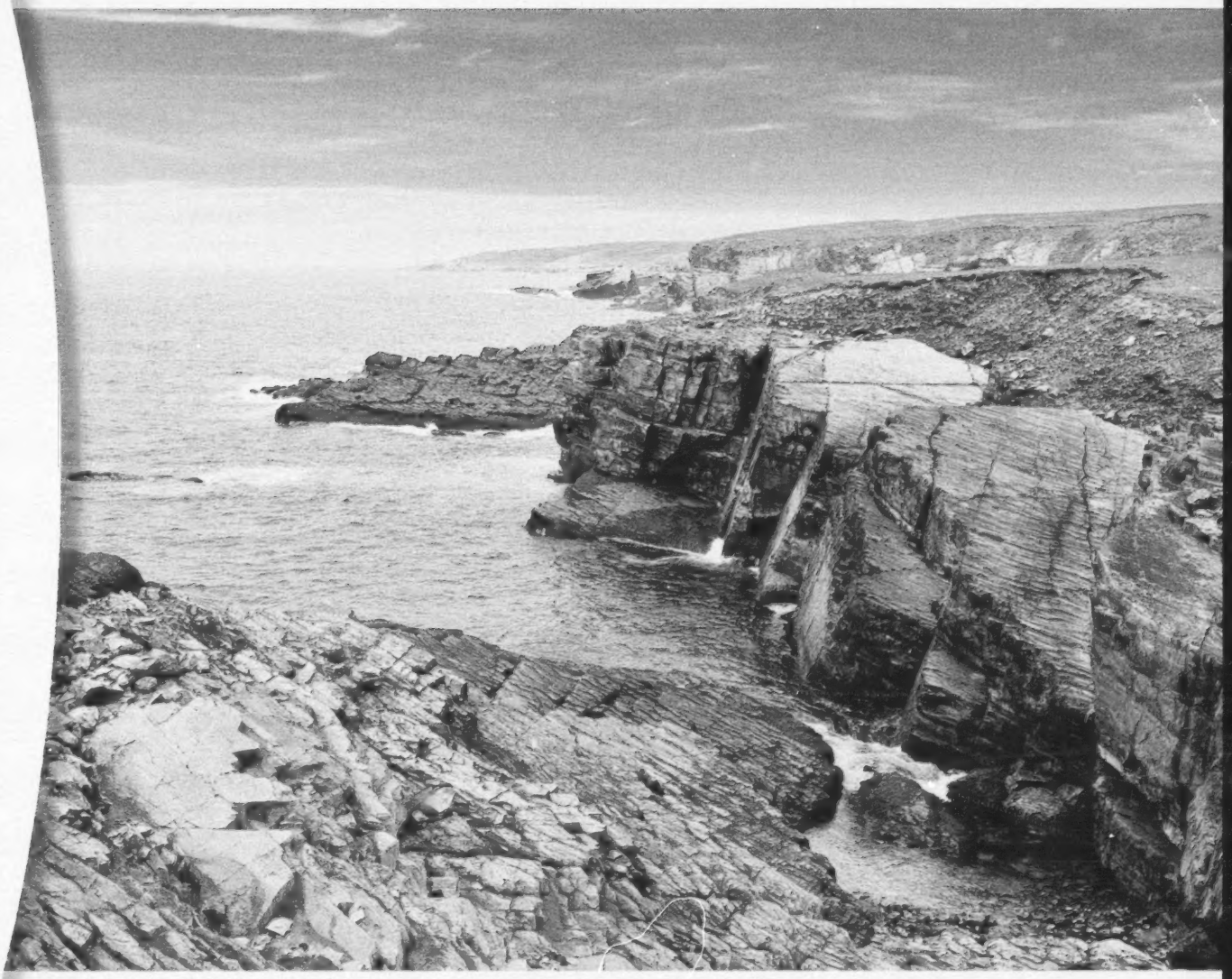
Overall, the office vacancy rate in the St. John's CMA averaged 13.7% over the first two quarters of 2016, a jump of 3.2 percentage points compared to the same period in 2015 (see chart). Despite the increasing vacancy rate, the average rental rate for office space grew 1.2% to $35.12 per square foot per year in the first two quarters of 2016 compared to $34.71 during the same period in 2015.

Office Vacancy Rates, Second Quarter 2016



Source: Cushman & Wakefield

Tourism



Mistaken Point Ecological Reserve Fossil Bed Area. Courtesy: Wayne Barrett, Barrett and MacKay Photography Inc. www.barrettmackay.com

Provincial Travel

The tourism sector in Newfoundland and Labrador has flourished over the past decade and has become an increasingly important part of the province's economy. Consisting of both residents who travel within the province and non-residents who visit the province, the sector has recorded annual expenditures of about $1 billion in recent years. The sector has been supported by continued improvements and additions to infrastructure, including airport expansions, better air access, replacement of ferries, renovation of convention facilities and construction of new hotels, restaurants and attractions. In addition, the Province's marketing efforts have played a major role in attracting travellers to the province.

Residents engaging in tourist activities within the province account for the majority of spending in the province's tourism sector, typically representing between 50% and 55%. Non-resident tourism is particularly important since it brings new money into the province. Ontario and the Maritimes typically account for the majority of non-resident visitors to the province.

Lower fuel prices in combination with a low Canadian dollar have made Canada, including Newfoundland and Labrador, more price competitive, which has boosted both international and domestic travel. This, combined with dampened economic conditions in Newfoundland and Labrador, could also positively impact intra-provincial travel as more residents elect to take a vacation in their home province.

Up to September 30, 2016, non-resident automobile visitation to the province reached an estimated 88,544 visitors, an increase of 6.2% compared to 2015 levels. For the full year, it is expected to reach approximately 102,400 visitors, which, if realized, would represent a gain of an additional 6,000 non-resident auto visitors over 2015 (6.2%). Non-resident air visitation data will be available in 2017 pending the results of the 2016 visitor exit survey at the St. John's, Deer Lake, Gander and Goose Bay airports.

Overall, visitation to the province's attractions increased over 2015 levels. Visitation to the provincial historic sites was up 16.7% to 95,280 visitors for the period ending September 30, 2016. Visitation to national historic sites increased 3.6% to 93,564 visitors for the period ending September 30. The Rooms attracted 58,898 visitors between May and September, an increase of 44.4%. This increase in visitation is connected to the opening of the highly popular Royal Newfoundland Regiment Gallery showcasing the Beaumont Hamel/First World War Exhibit (1916-2016). Camping activity increased at Gros Morne National Park and Terra Nova National Park 14.3% and 14.1%, respectively, for the operating period ending August 31, 2016.

Inbound non-stop seat capacity is a major indicator of the state of air access to the province. Inbound seat capacity is expected to rise 2.7% (34,400 additional seats) in 2016 compared to 2015. The increase is driven by capacity growth in domestic markets, which saw over 28,200 additional seats added in 2016. Both Air Canada (30,200) and WestJet (22,600) added capacity to their overseas services between St. John's and Heathrow and Dublin, respectively.

Airport activity (boarding and deplaning passenger movements) for the province's seven major airports (St. John's, Gander, Deer Lake, Stephenville, St. Anthony, Goose Bay and Wabush) reached an estimated 1,669,202 passenger movements for the period of January to August 2016, an increase of 3.4% over the same time period in 2015. Less activity at Gander and Wabush was more than offset by gains in the remaining five airports.

In 2016, installation of a Category III Instrument Landing System (CAT III ILS) at St. John's International Airport was completed. This new technology enhanced the airfield's accessibility

to 99%, allowing an estimated 700 more flights and 70,000 more passengers to arrive and depart annually without delays or cancellations in low visibility conditions. This new technology provides the St. John's International Airport with a strategic and competitive advantage and will help with marketing efforts and, in turn, increase seat capacity.

Marine Atlantic piloted new pricing strategies in both 2015 and 2016, which resulted in not only increased bookings on the discounted crossings, but an increase in bookings on all routes. Lower fuel prices combined with a low Canadian dollar also contributed to an increase in bookings as more Canadians opted for domestic travel as a cheaper travel alternative. For the period ending September 2016, Marine Atlantic passenger movements (both directions) reached 281,538, an increase of 3.8% over 2015 levels. Passenger-related vehicle movements increased 5.7% during the same period to 103,593. Approximately 45% of travel via Marine Atlantic is done in the July and August months (see chart). During the first nine months of 2016, the number of residents exiting via Marine Atlantic was down 0.3% to 49,302 compared to the same period in 2015, while non-resident visitation was up 6.2% to 88,544.

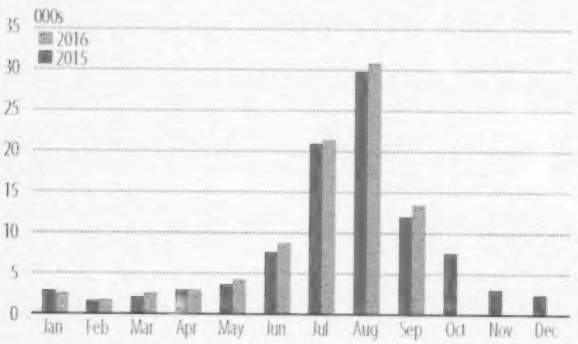
Preliminary information from Cruise Newfoundland and Labrador indicates that the province is expected to receive 74 port calls throughout the 2016 cruise season, compared to 53 port calls in 2015. This was a return to more normal levels after poor weather and mechanical issues led to a number of cancelled port calls in 2015. 120 port calls are tentatively booked for the 2017 cruise season.

The provincial occupancy rate (preliminary) was 50.8% for the January to July period of 2016, a decrease of 0.9 percentage points compared to the same period in 2015. It is estimated that room nights available increased 1.2% to 1,646,211 for the period ending July, while the number of room nights sold is estimated to have increased 1% to 794,900. The average daily rate was $140, an increase of 4.0% compared to last year.

Activity up to the end of August indicates that the meetings, convention and incentive travel (MCIT) market is up 17% in terms of the number of room nights attributed to events taking place in St. John's. The St. John's Convention Centre was closed during 2015 due to ongoing construction and renovations and re-opened in May 2016. With double its previous capacity, the expanded convention centre provides 47,000 square feet of divisible meeting space. At the end of August 2016, bookings for 2017 were tracking 20% lower than the same period in 2016. However, if tentative bookings materialize, MCIT activity would be on par with previous years and there will still be an opportunity to realize further gains.

The Province has promoted tourism through many forums including award-winning marketing campaigns and advanced technologies. In January 2016, the Province unveiled the new Itinerary Planner, which provides travellers with a customizable approach to building a personalized itinerary of activities, attractions and destinations. These itineraries are shareable on social media sites and can be linked to tourism businesses, creating greater exposure and a potential for more bookings/sales. For the first eight months of the

Non-Resident Auto Visitation



Source: Department of Business, Tourism, Culture and Rural Development

year, the itinerary planner had 82,900 visits and directed 18,000 referrals to tourism operators. Over 2.6 million sessions were reported from January to August 2016 on all of Newfoundland and Labrador's tourism websites combined. Approximately 1.8 million visits were registered at the Province's main tourism website, an increase of 10% over the same period in 2015. Combined, these represent an increased level of interest in the province as a travel destination.

Newfoundland and Labrador actively engages with visitors and potential visitors through its social media postings, which were well received during 2016. Statistics indicate that exposure of the province's tourism product through social media continues to reach a wide audience. While Facebook is the primary channel of social communications for the Province, traveller engagements also include other social media channels such as Twitter, YouTube and Instagram.

Bell Island. Courtesy: Philippe Baril Lecavalier.

Gross Domestic Product (GDP) and Employment by Industry

	GDP 2014p		Employment 2015	
	$ Millions	% of Total	Person Years 000s	% of Total
Goods-Producing Sector	**15,560.7**	**49.6**	**54.1**	**22.9**
Agriculture, Forestry & Logging	162.5	0.5	2.5	1.1
Fishing, Hunting & Trapping	301.5	1.0	3.4	1.4
Mining	1,738.0	5.5	3.2	1.4
Oil Extraction & Support Activities	8,067.4	25.7	8.4	3.6
Manufacturing	1,307.2	4.2	11.4	4.8
Fish Products	439.4	1.4	2.8	1.2
Other	867.7	2.8	8.6	3.6
Construction	3,423.1	10.9	22.6	9.6
Utilities	561.1	1.8	2.5	1.1
Services-Producing Sector	**15,780.1**	**50.4**	**182.0**	**77.1**
Wholesale Trade	730.4	2.3	5.2	2.2
Retail Trade	1,561.1	5.0	36.4	15.4
Transportation & Warehousing	793.1	2.5	10.0	4.2
Finance, Insurance, Real Estate & Business Support Services	4,072.0	13.0	15.5	6.6
Professional, Scientific & Technical Services	752.3	2.4	11.3	4.8
Educational Services	1,539.1	4.9	15.1	6.4
Health Care & Social Assistance	2,363.6	7.5	37.6	15.9
Information, Culture & Recreation	783.7	2.5	7.3	3.1
Accommodation & Food Services	504.7	1.6	15.4	6.5
Public Administration	2,156.7	6.9	15.7	6.6
Other Services	523.5	1.7	12.5	5.3
Total, All Industries	**31,340.7**	**100.0**	**236.2**	**100.0**

p: preliminary

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products and imports. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Department of Finance

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